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ABSTRACT

This report discusses trends affecting the future of rural development in Kentucky and describes strategies for leveraging more positive outcomes for rural communities. In addition to the enduring legacies of rural poverty, inadequate infrastructure, low educational attainment, and joblessness, contemporary rural Kentucky is also characterized by demographic flux, economic realignment, and persistent disparities that complicate and frustrate the pursuit of prosperity. Coal and farming industries, once the mainstays of Kentucky's rural economy, are being replaced by low-skill, low-wage manufacturing and service jobs. These industries are ill-prepared for competing in a global economy and for providing training for the high skills demanded by globalization, technological advancement, and organizational change. The impact of a global economy, as well as the rising expectation that government must do more with less, has led to the increasing importance of civic engagement and the ability of local communities to build from within. Community capacity-building initiatives include promoting a long-term perspective on development; initiating regional and multicommunity approaches; cultivating a broad base of community leadership through formal project-specific training and process training aimed at sustaining engagement and participation; and developing a database indicative of community strengths, weaknesses, and relative position in the larger economic context. Recommendations include reinforcing the themes of thinking and planning for engagement with the world, focusing resources and efforts at the community level, and developing high-performance government that implements new approaches to formulating and implementing policy. A case study of rural development success in Tupelo, Mississippi, is included, as well as 86 resources and a rural development questionnaire. (LP)

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Reclaiming Community, Reckoning with Change

Rural Development in the Global Context

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THE KENTUCKY LONG-TERM POLICY RESEARCH CENTER

Reclaiming Community, Reckoning with Change

Rural Development in the Global Context

Michal Smith-Mello

THE KENTUCKY LONG-TERM POLICY RESEARCH CENTER

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Preface

This report was prepared as part of the Kentucky Long-Term Policy Research Center's continuing effort to understand the future implications of an array of trends affecting the Commonwealth. We focus here on trends affecting the future of rural development in Kentucky and on ways of leveraging more positive outcomes for rural communities in the years to come. This study should be of particular interest to policymakers and citizens who are concerned about improving rural prosperity and productivity.

KENTUCKY LONG-TERM POLICY RESEARCH CENTER

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Governing the Kentucky Long-Term Policy Research Center is a 21-member board of directors that includes four appointees from the executive branch, six from the legislative branch, and 11 at-large members representing citizen groups, universities, local governments, and the private sector. From the at-large component of the board, six members are appointed by the Governor and five by the Legislative Research Commission. In accordance with its authorizing legislation, the Center is attached to the legislative branch of Kentucky state government. The makeup of its board, however, affords it functional independence and permits it to serve both the executive and legislative branches of government equally, as well as the public.

Michael T. Childress is the executive director of the Center. Those interested in further information about the Kentucky Long-Term Policy Research Center should contact his office directly:

KENTUCKY LONG TERM POLICY RESEARCH CENTER
1024 Capital Center Drive, Suite 310
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Table of Contents

Preface v
Figures ix
Tables xi
Summary xiii
This Rural Place xiv
The Certainty of Change xv
Development in a New Context xv
Forging New Traditions xviii
Acknowledgments xxi
Introduction 1
This Rural Place 7
Demographic Flux 7
Rural-Urban Disparities 9
Economic Realignment 10
Pursuing Prosperity 14
The Certainty of Change 17
Globalization Expands 18
The Architecture of Change 19
Organizational Realignment 21
Development in the New Context 23
Beyond Quantitative Development 25
Jobs That Don't Add Up 26
Strategic Recruitment 31
New-Old Truths 36
Building the Capacity of Rural People and Places 41
A Long-Term Perspective 43
Regional Approaches 46
Leadership Development 50
Community Assessment 52
Investments that Pay Dividends 56
Lessons from Tupelo 61
Forging New Traditions 67
Think and Plan for Engagement with the World 69
Focus Resources and Effort at the Community Level 70
Develop High-Performance Government 72

The Challenges Before Us 75
Resources 79
Appendix 85

Figures

1. Bituminous Coal Industry Employment in Kentucky.....11
2. Per Capita Income in Kentucky as a Percent of the U.S. Average, 1980-93.....14
3. Percent of Respondents Reporting Benefits of Rural U.S. Self-Development Initiatives, 1990.....57

Tables

1. Disparities Between Metropolitan and Rural Kentucky Counties, 1990.....9

Summary

In spite of its enduring appeal, rural Kentucky is home to disturbing and seemingly intractable inequities—persistent joblessness, poverty, depressed incomes, lagging educational achievement. Moreover, the promise of a better future is being undermined by the enduring legacy of poverty and the continual loss of better-educated young people who migrate to urban communities in search of opportunity.

It is evident that the poverty or prosperity of any part of Kentucky—rural or urban—influences the state's overall well-being. It is therefore difficult, if not impossible, to conceive of a strategy for greater economic and social well-being that does not recognize and systematically address the development of rural Kentucky. Reversing the decline many of our rural communities have experienced demands that we connect with the global community and enhance the capacity of communities to negotiate this demanding new international environment. Ultimately, change in the larger, global context will either propel improved circumstances throughout rural Kentucky in the 21st Century or ensure its continued marginalization.

Few individuals or communities around the world will remain insulated from the remarkable, unprecedented structural change which is presently underway. Our ability to leverage positive outcomes for rural Kentucky will depend in no small part on how successfully we negotiate the dynamic economic and social changes ahead, and on our capacity to compete and prosper.

This Rural Place

Contemporary rural Kentucky is characterized by demographic flux, economic realignment, and persistent disparities that complicate and frustrate the pursuit of prosperity. During the early 1990s, rural counties throughout Kentucky have experienced modest but unexpected population gains. Today, a slight majority (51 percent) of Kentuckians live in what are defined as rural counties, according to population estimates for 1994.

While national analysts attribute much of the rural population growth of the early 1990s to retirees and commuters to suburban areas, a rural revival may be underway (Johnson & Beale, 1995). On the other hand, flight from urban areas, propelled by job displacement, may be the impetus for rural population growth. Population growth, however, does not necessarily correlate with economic growth. In any event, whether the present blush of growth will be sustained depends on our ability to adapt to the larger context of change and seize the opportunities it yields.

Already, the perceived mainstays of Kentucky's rural economy have changed. The coal industry's historically prominent role has diminished dramatically. Likewise, few Kentucky counties now fully depend on farming to sustain their economies. Instead, manufacturing and, to a lesser extent, services are playing more prominent roles in rural economies. Still, rural Kentucky is home to many low-skill, low-wage industries that usually provide poor training grounds for the for the high skills demands of our emerging economy.

While per capita income has risen statewide, it continues to trail the national average by a wide margin and significant disparities exist between rural and urban economic circumstances. The challenge before rural communities is to sustain income growth in an era that will place new and more exacting demands on individuals, enterprises and communities.

The Certainty of Change

The hopeful and, at the same time, discomforting reality before rural people and places throughout Kentucky is the certainty of structural economic and social change that is well underway. In the years to come, it will only accelerate. Few members of the world community will remain insulated from its impact, no matter where they live. Globalization, technological advancement and the resultant social shifts compel rural communities to develop a future-oriented outlook and forge new traditions that will enable them to navigate what lies ahead. Stronger, more resilient rural economies that are better able to preserve and protect desirable rural qualities will be required.

Perhaps the most far-reaching transformation in terms of its impact on individuals, enterprises, and institutions is the globalization of our economy, an economic realignment that has forever altered the way we work and conduct business. While it is expected to create myriad opportunities, globalization could have a devastating impact on rural communities as the low-skills, low-wage industries traditionally attracted to and based in rural areas are ill-prepared for the competitive challenge that lies on the immediate horizon.

The demand for high skills is rising exponentially with the advance of information technology, which is redefining work and work lives. While technology has displaced workers, it is also liberating workers to contribute at much higher levels and, increasingly, from remote locations, a trend that could bode well for rural communities. The combination of rising external pressures created by global competition and new internal demands for higher skills have compelled significant organizational change throughout the private sector. Gradually, organizational change is unleashing previously untapped contributions, streamlining processes, and reshaping our fundamental understanding of how to achieve goals.

Development in a New Context

As the larger context undergoes dramatic change, our understanding of what constitutes and accelerates development is evolving. The demands of a competitive international economy are redefining the re-

quirements for successful development initiatives, and the adaptive experiences of the private sector have illuminated our understanding of how to achieve organizational goals. Participative democracy, we are learning, is the underlying strength that has enabled some workplaces to become more productive and some communities and regions to prosper. At the same time, citizen expectations of government are rising. Increasingly, government is expected to do more with less, to deliver higher quality service at a lower cost. Consequently, nurturing civic engagement and cultivating local capabilities to build from within may offer the optimum strategy for rural development.

Beyond Quantitative Development. The long-held emphasis on quantity—jobs and investment—is gradually being displaced by a demand for quality—measurable returns to communities and people. In response, states have begun to adopt more entrepreneurial, "supply-side" policies that emphasize "local resources as a basis for growth," rather than competition with other states for mobile jobs (Eisinger, 1988). In the new context, development efforts can no longer be judged solely on the number of jobs created. Instead, the quality of jobs, the overall economic and social benefits they yield for workers and communities, is rapidly becoming the measure of development success.

While little can be gained from a unilateral withdrawal from interstate competition for industrial locations, development from within offers a path that research suggests will yield preferred outcomes over the long-term. Consequently, industrial recruitment efforts and particularly the utilization of tax incentives must be used strategically to advance larger economic development goals aimed at raising income and productivity. Through initiatives designed to enhance the capacity or capabilities of individuals, enterprises, institutions and communities, government can help leverage more positive outcomes for rural communities than those realized in the pursuit of mobile industries.

Building the Capacity of Rural People and Places. In response to a rapidly changing global context and an expanding base of knowledge, development theory and practice are gradually returning to the restorative powers of broad civic engagement in building the capacity of local communities. Because economic development is essentially a "self-help" exercise (Lear, 1994), cultivating local capacity is increasingly regarded as the most important work that government can undertake in the name

of development. In response, state and local governments are shifting away from a professional, command-and-control model to one that facilitates, supports and nurtures civic engagement in community building.

Capacity building initiatives are designed to bring a wider, often non-traditional group of players into the work of development. That work, consensus suggests, should include, among other things, assessing the current situation, planning for desired outcomes over the long-term, nurturing leadership and forging collaborative relationships that strengthen capabilities. The optimum outcome is expanded levels of civic engagement and enhanced rural capabilities to solve problems and achieve goals. Research suggests that this approach to development is most likely to produce sustained, long-term benefits. Capacity building is also a means to doing more with less, to closing resource gaps that have traditionally inhibited the development of rural communities.

A Long-Term Perspective. One of the hallmarks of successful rural development initiatives is a long-term perspective on development that recognizes the need to persevere and to plan for the future. The process, one that is collaborative and participative, becomes, over time, more important than its more immediate short-term products. Research, particularly the work of Harvard Professor Robert Putnam, suggests that sustained collaboration and civic engagement yield wealth and good government.

Regional Approaches. Research supports the strength-in-numbers approach to development, suggesting that collaborative efforts that engage regions, communities, industries or groups in the pursuit of consensus goals are model organizational structures. Through collaboration, communities can enhance their internal capabilities and increase their external leverage. While politics often frustrates the ability of rural communities to achieve collaboration, the potential benefits are sufficient to warrant state government's active support and encouragement of such efforts.

Leadership Development. The cultivation of a broad base of leadership through formal project specific training *and* process training that helps sustain engagement and expand participation. Open democratic processes that invite and enable participation in problem solving is rein-

forced through process leadership training, which cultivates the skills needed to maintain and expand engagement. Leadership helps close resource gaps and strengthen the capabilities of communities to achieve goals.

Community Assessment. Many rural development activists and researchers observe that a solid, data-based analysis of community strengths, weaknesses, and relative position in the larger context, is an essential foundation for development. On this foundation, priority goals and a plan of action can be built, lending critical focus to the work of development. Communities that proceed with development strategies in the absence of such critical knowledge, experts conclude, are blindly groping for answers.

Investments That Pay Dividends. National survey results show that local development initiatives are generating positive, tangible benefits to communities, but they are often constrained by a lack of resources. Indeed, the lack of capital is most frequently cited as the greatest hindrance to the effort, one that underscores the importance of government's role in advancing rural development.

Forging New Traditions

The enduring legacies of rural poverty, inadequate infrastructure, low educational achievement and joblessness are reason enough to dramatically alter our approach to development in Kentucky. Now we face another set of forces that are certain to touch each of our lives, regardless of where we live. Globalization, technological advancement and organizational change are restructuring the world in which we live. They also must profoundly influence the way we conduct development.

While it is impossible to predict what Kentucky or, for that matter, the rest of the world will look like in the years to come, many people have closely examined our current circumstances and offered good ideas about how to enrich the possibilities before us. Rather than add yet another list of "things to do" to our public agenda, our report concludes by revisiting the important groundwork that has already been laid, groundwork which echoes the major themes of this report:

- Think and plan for engagement with the world;
- Focus resources and effort at the community level; and,
- Develop high-performance government.

From the groundbreaking work of the Kentucky Tomorrow Commission in the mid-1980s to the recommendations of Project 21, a private sector initiative led by the State Chamber of Commerce, there is remarkable consensus on the importance of engaging in the world economy and rejecting isolationist policies. Likewise, a number of thoughtful pursuits of improved public policy, including the 1994-95 Governor's Commission on Appalachia and the Economic Development Cabinet's strategic plan, recognize and recommend focusing state government resources and effort at the local level—from where the energy that propels development must emanate.

Finally, state government, like the private sector, must adapt to the new global environment and become a high-performance organization. The processes of structural realignment and organizational change compel states to develop new capacities, new "relationships, values and methods," and new approaches to both formulating and implementing policy (Fosler, 1992). The many steps state government must take toward achieving optimum outcomes for the citizens and communities of Kentucky include cultivating a "culture of performance" (Fosler), developing critical "institutional intelligence" (Fosler), leveraging expanded capacity by encouraging and supporting collaboration, and engaging citizens and groups in the work of building prosperity throughout the Commonwealth.

In conclusion, we believe Kentuckians are singing from the same song book. It is time to breathe life into their plans and recommendations, their hopes and dreams for the future of this state.

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Introduction

THE ENDURING QUESTION OF HOW TO FULLY DEVELOP THE FULL POTENTIAL OF RURAL PEOPLE AND PLACES continues to confound nations around the world. Governments have made significant investments in people, programs, infrastructure and institutions in response to the apparent and compelling needs of underdeveloped regions. At the same time, extraordinary intellectual energy has been dedicated to the task of defining rural problems and discovering solutions. Here in the United States, a network of rural development centers and agencies deliver a range of direct services, conduct important research about rural issues, and advise and assist rural citizens and communities.

Despite the considerable resources dedicated to the goal of increased prosperity in rural places, we remain conflicted about how to achieve true development. Strategies for development continue to be influenced by a political context that demands short-term solutions to long-standing problems for which there are no quick or easy remedies. While the debate around short-term "solutions" versus long-term strategies for fundamental change percolated upward into political dialogue, economic and social circumstances in rural America actually worsened. In spite of recent population growth, increased wealth—the true benchmark of development—has not materialized. Consequently, the challenge of rural development is still very much with us, and it grows more complex with each passing day. Unless met with constructive, informed responses, the structural economic change now underway may precipitate further rural decline.

THE CHALLENGE OF DEVELOPING THE FULL POTENTIAL OF RURAL PEOPLE AND PLACES is essentially one of doing more with less. Historically, rural progress has been stymied by the dilution of critical resources—capital, labor, leadership, civic engagement, etc. While the compelling beauty and hospitality of Kentucky continue to lure natives of the state back home, vast areas of the Commonwealth lack the economic and social vitality to hold people. The consequences of what has been a constant drain of people and resources from many rural areas of Kentucky are profound: We are a substantially weaker state—economically and socially.

Across the Commonwealth, the inability of young people to find employment opportunities in rural communities has also eroded an often unsung Kentucky strength, extended family networks whose unity has historically helped bridge economic gaps. While many of Kentucky's most educated, thoughtful citizens are rural residents by choice, those most likely to leave rural areas are its younger, more educated citizens—the very promise of a brighter future. As a consequence, many of our rural communities are poorly prepared to meet the high skills challenge of the future. Carefully coordinated strategies designed to build human resource capabilities and employment opportunities are clearly indicated.

In addition to the economic consequences of a depleted labor force, rural communities have traditionally been at an economic disadvantage because of weak physical infrastructure—highways, airports, and, now, communications infrastructure—and the cost penalty exacted by the necessity of transporting goods added distances (Bonnett, 1993). With the advancement of communications infrastructure, the distance penalty may be alleviated in coming years as technology liberates more enterprises and workers from urban and suburban places and enables more immediate connections between rural and urban places. In Kentucky, however, inadequate physical infrastructure continues to frustrate development in a number of regions that remain relatively inaccessible and poorly equipped to accommodate increased demands on already strained public water, solid waste and wastewater treatment systems. Electronic communications infrastructure represents yet another gap that must be closed.

IN SPITE OF THE DEPTH AND BREADTH OF RURAL NEEDS and the expressed commitment of political leaders to meeting them, government at every level faces a likely future of limited resources. Public pressure for higher levels of accountability *and* for expanded government service is expected to continue rising. Doing more with less, the legacy of rural life across generations, now informs the work of government from Capitol Hill to City Hall. Consequently, broad investment in social or physical infrastructure is unlikely on the immediate horizon. Instead, investment may decline, as governments respond to the rising demand for more productive use of limited public resources, to eliminate waste, and, in the process, to achieve a higher quality of service.

The broad public commitment that might leverage substantial investment in rural communities is also an unlikely future outcome. Misconceptions about quality of life in rural America are widely held (Bonnett, 1993; Corporation for Enterprise Development [CED], 1993) and often reinforced by political rhetoric. It is seldom politically advantageous to bring focus to the disproportionate poverty, joblessness and general decline that much of rural America has experienced, particularly in an era when resources that might leverage change are limited. Not surprisingly, many Americans continue to perceive the rural places of our nation as home to enviable wealth. A 1992 Roper poll, for example, found that most Americans view rural America as "having an embarrassment of riches, not problems" (Bonnett).

And, as the authors of *Rethinking Rural Development* note, public interest and political will are being strongly influenced by the persistent notion that rural decline is merely a phase (CED, 1993). "A short-lived 'Rural Renaissance' in the late 1970s and early 1980s . . . perhaps reinforced this lingering perception that rural communities need only wait for their turn to come again. But, in reality, the recent shocks to an increasingly industrialized rural economy are structural, not cyclical, in nature" (CED, 8). In spite of the population rebound that appears to be occurring nationally in rural counties, structural change will continue to profoundly affect rural communities.

THE ONE CERTAINTY WHICH LIES ON THE IMMEDIATE AND FORESEEABLE HORIZON IS CHANGE. Whether we view it from a high-rise apartment in a teeming city or from a front porch

10 miles from the nearest neighbor, revolutionary change lies on the horizon. It will persist throughout the rest of our lives and into the 21st Century we are capable of imagining.

Globalization is weaving an intricate web of social and economic relationships that will continue to affect our lives. Already, the force of worldwide competition has exerted powerful influences on our expectations of the marketplace and the workplace. It is being propelled by information technology that is undergoing nearly constant change, redefining the way we communicate, work, and entertain ourselves, and opening doors to ideas, innovations and knowledge previously unavailable to us.

In order to adapt to these daunting changes, institutions are undergoing organizational change that, while exacting a painful toll, promises to bring unprecedented democracy to a range of processes, in and out of the workplace. The mission and the conduct of government are changing as well. Policymakers are looking to the new world market for opportunities to expand prosperity, as they look inward to discover and cultivate new, enhanced capacities. Increasingly, their search is informed by an understanding of the radiating power which emanates from the broad engagement of individuals, enterprises, and communities in the pursuit of common goals.

As discomforting as these changes are, they offer enormous opportunity for those who are prepared to seize it. An essential part of developing rural people and places is developing the capacity that will enable them to become more comfortable with change and more capable of managing it. As rural researcher Kenneth L. Deavers observes, "Distance and tradition cannot be relied upon to insulate local economies from structural change." Instead, rural leaders "need to see their future development in terms of broad forces of change in the marketplace" (Deavers, 1991, 5). They are inevitable and inescapable.

CITIZENS FROM ACROSS THE COMMONWEALTH HAVE EXPRESSED A CLEAR VISION OF THE FUTURE THEY WANT FOR ALL OF KENTUCKY.[1] It is one of a sustainable, prosperous, equitable economy; of educated, engaged citizens; of a clean, beautiful, enjoyable environment; of safe, healthy communities; and honest, participatory government at all levels. In order to realize this vision, we

[1] The citizen vision for the preferred future of the state emerged from a series of town meetings held by the Long-Term Policy Research Center in the Fall of 1994.

must grow far more comfortable with change. Our ability to leverage positive future outcomes for rural Kentucky will depend in no small part on how successfully we negotiate the certain change which lies ahead. Failure to seize the opportunities could continue to marginalize the communities of rural Kentucky into the coming millennium.

State Historian James C. Klotter suggests our reluctance to change figured prominently in retarding Kentucky's development and diminishing the state's status throughout much of the 20th Century. Kentucky's regional and national position essentially devolved from one of prominence at the turn of the century to one of decline, as measured by a number of social and economic indicators. While our resistance to change helped preserve enviable qualities that are widely recognized as strengths, persistent poverty and diminished economic prospects also number among its many legacies. Interestingly, respondents to an April 1995 survey of Kentuckians engaged in the work or study of rural development often cite this same general reluctance to change as a key obstacle to development.

While our resistance to change helped preserve enviable qualities that are widely recognized as strengths, persistent poverty and diminished economic prospects also number among its legacies.

Attempts to understand and overcome resistance to change are not new. In the wake of World War II, the Committee for Kentucky was formed to educate citizens about policies critical to the state's development. In a series of reports on issues of vital interest to the state, the Committee exhorted citizens to become actively involved in solving state problems (Kleber, 1992). It also delved into the root causes of the state's economic decline. Many of the causes noted half a century ago continue to frustrate development today: dependence on extractive rather than value-added industries; slow progress in communications; and geographic diversity that complicates agreement on fundamental policies and goals. The Committee for Kentucky also observed that the state's diminished status was attributable to a history-oriented, rather than a future-oriented outlook (Schacter, 1949).

While our history-oriented focus has helped preserve fundamental strengths, rapid change and the potentially severe economic consequences of resisting it compel us to plan and act with the future in mind. Clearly, the challenge of realizing the full potential of Kentucky's com-

munities and people—rural or urban—is far more complicated and difficult than in the 1940s when the Committee for Kentucky sought to forge a future-oriented outlook. By expanding our understanding of change, we can seize more of the opportunities it is certain to yield. At the same time, we can act, perhaps more effectively than ever before, to preserve and even elevate those qualities which make rural places throughout Kentucky attractive, compelling and restorative.

THIS REPORT BEGINS WITH AN EXAMINATION OF PRESENT CIRCUMSTANCES IN RURAL KENTUCKY, including the disparities between rural and urban communities and the diminishing returns of the economic bases that once sustained rural economies. From our consideration of some of the dynamics of this rural place, our discussion moves outward to the larger context of structural economic change, which will exert a profound influence on the lives and livelihoods of rural citizens in the years ahead.

From a discussion of trends that are exerting an overarching influence, this report turns to the work of development in the context of a dynamic global marketplace, where it is increasingly important that we move beyond what Peter Eisinger terms a "quantitative" jobs creation approach to development, to the critical work of building the capacity of people, communities and firms. Strategies for elevating the capabilities of rural communities through local development initiatives are discussed in this report while a companion report, *Farms, Factories and Free Trade* examines ways of elevating the capabilities of rural enterprises. We also present the results of an informal survey of Kentuckians who are actively engaged in the work or study of rural development and a case study of Tupelo, Mississippi, a nationally acclaimed rural development success.

The report concludes with recommendations on restructuring our approach to rural development and cultivating a more effective public sector role.

This Rural Place

WHILE AN INCREASINGLY URBANIZED TRIANGLE FORMS ITS HEART, Kentucky remains predominantly rural in its character and identity. From the lush forests of the Appalachian Mountains, to the gently rolling farmlands that lie to the west, to the elegant and richly historic small towns that grace its landscape, the solace of open space and natural beauty are always within easy reach. The simple elegance of rural Kentucky is a constant inspiration, but it is typically accompanied by disturbing and at times seemingly intractable inequities. Critical resources—human and economic—are diminished, and a rapidly changing global context poses new threats to fragile and fraying rural economies, even as new worlds of opportunity unfold.

Demographic Flux

Today, only 22 of Kentucky's 120 counties are designated as metropolitan, a federal classification that often has more to do with commuting patterns than day-to-day circumstances of life. Many of the state's metropolitan counties are predominantly rural in character while some non-metropolitan counties are home to dynamic growth centers that have assumed many of the characteristics normally associated with urbanization. Outside of a handful of distinctly urbanized counties, some of which have large rural areas, Kentucky is otherwise an essentially rural state. Nevertheless, almost half of all Kentuckians reside in metropolitan counties, according to 1994 population estimates from the State Data Center. In spite of an abundance of space, Kentuckians are clustered in its few urban places, a movement which mirrors recent global trends.

During all but two decades of this century, Kentucky has experienced net out-migration; more people have moved out of the state than into it. This population drain has had a far more acute impact on rural areas of the state. Over the most recent 1980-1990 decade, for example, most rural counties experienced population losses; some actually experienced depopulation as deaths exceeded births, a circumstance that is now more common nationally than at any time in U.S. history (Johnson & Beale, 1995).

Population estimates for the early 1990s, however, suggest that the state as a whole is experiencing relatively diffuse population growth, with some non-metropolitan growth centers, such as Daviess, Laurel, Morgan, and Pulaski counties, experiencing fairly robust growth. A recent national analysis of county-level data suggests that most of the growth now occurring in non-metropolitan counties is attributable to net in-migration, rather than natural population gains (Johnson & Beale, 1995). In Kentucky, the rural-urban balance has actually shifted slightly; more Kentuckians (51 percent) now reside in non-metropolitan counties of the state than in 1990. In 1990, 52 percent of the state's population resided in metropolitan counties.

Whether the blush of population growth rural Kentucky is experiencing is tied to sustained development that will persist and defy the informed predictions of demographers is yet to be seen. Aggregate analysis of national trends, however, shows that rural birth rates continue to decline as urban birth rates rise, a circumstance that does not bode well for long-term population growth. This trend reflects a continued lack of confidence in rural economies, as well as the increased presence of older, retired persons, who are bringing much-needed income to many rural areas. Nationally, the "rural rebound" now underway is being attributed to the in-migration of retirees attracted by recreational amenities and commuters who work in outlying metropolitan counties (Johnson and Beale, 1995).

Importantly, as University of Kentucky Professor Lorraine Garkovich observes, population growth in non-metropolitan counties is not necessarily indicative of economic growth. In fact, many of the commuters who are now establishing residence in rural areas may oppose economic development which could undermine the lifestyle they sought.

And, in spite of rural population gains, 30.8 percent of the estimated population growth in Kentucky between 1990 and 1994 occurred in five metropolitan counties: Boone, Bullitt, Fayette, Jefferson, and Oldham. As

Louisville and Lexington MSAs. However, all but 13 of Kentucky's 120 counties experienced net population gain between 1990 and 1994, mirroring an emerging national trend (Johnson and Beale, 1995).

Rural-Urban Disparities

In spite of evidence of recent population growth, rural communities and people across Kentucky shoulder a legacy of economic and social disadvantage that is both self-limiting and self-perpetuating. In some regions, need is acute (Eller, 1994). As illustrated in Table 1, the economic and social disparities between rural and urban residents of Kentucky are pronounced.

While population drifted away from rural areas of the state from 1985 to 1990, on average, metropolitan areas experienced modest net gains. Among those who make rural areas their home in Kentucky, poverty is far more pervasive and more likely to affect the most vulnerable citizens of our state—children and the elderly. In the absence of focused intervention, high rates of child poverty portend a particularly bleak outlook for the future, increasing the likelihood that inter-generational cycles of impoverishment will continue uninterrupted.

TABLE 1
Disparities Between Metropolitan and Rural Kentucky Counties, 1990
(Unweighted Averages)

Variable	Metropolitan	Rural
Net Population Change (1985-1990)	+2.7%	-0.9%
Persons Living in Poverty	14.6%	25.2%
Persons Age 65+ Living in Poverty	18.0%	27.9%
Children (age 0-17) Living in Poverty	19.1%	30.5%
High School Graduation Rate	68.5%	54.1%
Labor Force Participation Rate	63.5%	55.4%
Per Capita Personal Income	$18,789	$13,557

Source: LTPRC analysis of U.S. Census data, 1995.

The tools which enable escape from poverty have historically propelled people away from rural regions. Typically, younger, more educated citizens leave rural areas in search of greater opportunity, shifting critical human capital to urban areas. Thus, much of the human capital products of local investment in education are lost to the community. Instead, they benefit those communities which receive rural migrants. As a result, incentives for public investment are blunted, again, underscoring the need for a coordinated approach that creates opportunities and elevates the quality and quantity of education.

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Hence, the educational profile of Kentucky's rural communities compares poorly with metropolitan areas though substantial portions of urban human capital were nurtured in rural places. Because educational attainment is a predictor of both earnings and labor force participation, the significant proportion of rural Kentucky adults who do not possess a high school diploma adversely affects the productivity, wealth and future prospects of the places where they live. It also underscores the need to continue a strong emphasis on building the capacity of rural communities through sustained investment in education, workforce training, and the development of quality institutions to support these critical endeavors.

Economic Realignment

As Kenneth L. Deavers suggests, the challenge of rural development is one of "linking remote rural areas more fully into the national and global marketplace so . . . they can reduce their continuing dependence on economic sectors that are stagnant or declining in employment" (Deavers, 1991, 5). We have not fully met this challenge in rural Kentucky. As sectors of the state's rural economies wane or face almost certain decline in terms of their contribution to employment and income, the importance of strategies for change rises.

While key to Kentucky's economy, farming is no longer the rural economic mainstay it once was. Even as gross farming receipts have risen in Kentucky, cultivated farm land, farm employment and farm population have declined steadily over the past half century. Agriculture, like many enterprises, is becoming far more concentrated and capital intensive, placing Kentucky's small farms at a singular disadvantage.

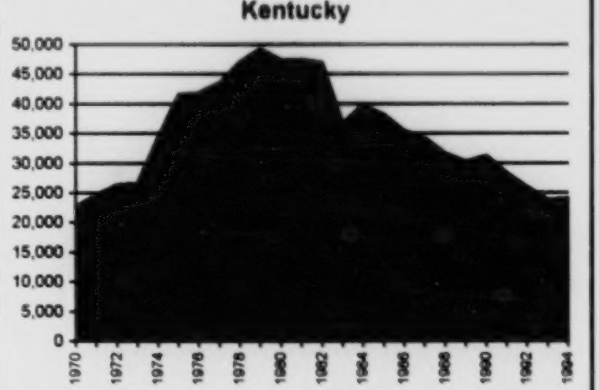
Only nine Kentucky counties, according to the U.S. Department of Agriculture (USDA), are farming-dependent in that farming contributed 20 percent or more of total labor and proprietor income from 1987-1989. While there is enormous and as yet unrealized potential for Kentucky's agricultural products (A 1995 Kentucky Long-Term Policy Research Center report, *Farms, Factories and Free Trade*, examines the likely impact of trade liberalization on Kentucky's farm economy and ways of realizing gains from globalization.), even the most successful development of this portion of our economy will not by itself solve the problems of rural communities. Much more will be required to substantially change rural

circumstances. Indeed, rural development experts observe that farm policy is no substitute for a comprehensive rural development policy (Bonnett; Browne et al.).

Similarly, the role of the coal industry in the state's rural economies has diminished, and, as a consequence, structural economic realignment is underway in many coal-producing counties. In 1994, coal industry employment (24,100) declined to 1970, pre-boom levels (22,700). During the first four months of 1995, employment levels declined to an average of 23,600 per month. Nationally, recent rural population gains were slowest in coal and mining counties (Johnson & Beale, 1995).

A 1995 Center for Business and Economic Research report, however, suggests that the fortunes of Pike County, the state's largest coal producing county, have not risen and fallen with industry cycles. Instead, the impact of the coal industry boom was felt principally within the mining industry itself, as growth outside the mining sector lagged well behind that within the industry. Similarly, the report's authors observe that non-mining sectors have remained "relatively unscathed" in Pike County in the wake of the coal bust, suggesting that the widely anticipated multiplier effects of this industry, and possibly others, may be modest at best (Black, Daniel, Sanders, 1995). At the same time, these findings suggest that some previously coal-dependent rural counties are sufficiently resilient to weather the loss of a major employer. Less diversified counties, however, may be more adversely affected.

FIGURE 1
Bituminous Coal Industry Employment in Kentucky



Source: Department of Employment Services, Workforce Development Cabinet

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Kentucky continues to make significant gains in the manufacturing sector. Recent research finds that the East South Atlantic states—Kentucky, Mississippi, Alabama and Tennessee—enjoyed the highest rates of new manufacturing investment in the nation from 1986 to 1989. While the locations most likely to gain these new investments were those with ready access to interstate highways and large available labor pools, evidenced by high unemployment rates, this four-state region benefited from substantial new investment (53.8 locations per million people). However, the study's authors conclude that those communities with a low probability of attracting manufacturing investment due to poor access and inadequate supplies of labor should adopt alternatives to industrial recruitment (McNamara, Kriesel and Rainey, 1995).

Recent research finds that the East South Atlantic states—Kentucky, Mississippi, Alabama and Tennessee—enjoyed the highest rates of new manufacturing investment in the nation from 1986 to 1989.

As the perceived mainstays of rural economies have waned, manufacturing, which is discussed in detail in a companion report, *Farms, Factories and Free Trade*, and services have played an ascending economic role across the state. In some regions, the structural realignment now underway has reduced the number of high-paying jobs, particularly those in the coal industry, and replaced them with lower paying jobs. Consequently, the economic disadvantage that rural communities have historically faced is worsening in some regions.

Public Perspectives on Obstacles to Rural Development

Kentuckians with a strong and compelling interest in rural development express the belief that the most formidable obstacle to development is diminished leadership capacity, which many believe can be alleviated by broader citizen engagement and self-determination. The results of an informal Kentucky Long-Term Policy Research Center survey, which appears as an appendix to this report, suggest that many Kentuckians perceive the overall quality of leadership, public and private, and governance to be the most significant obstacles to the development of Kentucky's rural communities.

Issues of leadership and governance were cited by more than 60 percent of respondents as barriers to rural progress. Responses in this category referred both to governmental policies and processes, including the poor quality of public leadership, inadequate citizen participation, insufficient planning, and inadequate public funding.

Frustration with inadequate citizen engagement and recognition of its importance was frequently expressed in comments such as "lack of general consensus upon the basic worth of all citizens, and their value to the community" and "a lack of complete community involvement in change." About planning, one respondent observed, "There is no systematic effort on a statewide, regional, or local level to assess the needs, develop solutions, and assign priorities to the problems of the state." Similarly, another respondent suggested that a lack of "planning for the efficient use of scarce resources" inhibited rural development.

To a lesser extent, specific issues, such as the state's tax structure, excessive regulation, unfunded mandates, and the detrimental effects of industrial development incentives were cited as barriers to rural development. Generally, significant frustration with ineffective, unresponsive and bureaucratic approaches to development was registered.

Issues of local capacity were also cited as barriers to development. Poor access due to the quality of roads and telecommunications infrastructure, for example, was cited by 58.8 percent of respondents while 52.6 percent referred to educational deficiencies as key barriers to rural development. Responses about economic resources, including frustrated entrepreneurship, few employment opportunities, limited economic diversity, scarce land, a weak labor supply, and the absence of extension programs or industrial associations were given by 45.4 percent of respondents.

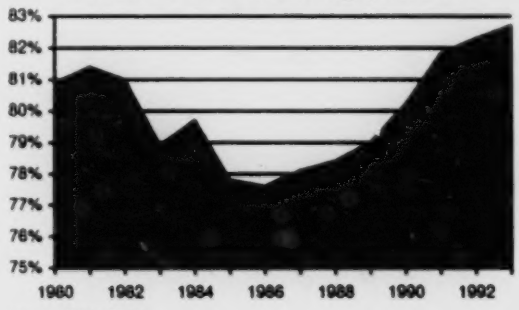
Quality of life factors, such as limited availability and accessibility of child care and health care, poor environmental quality, minimal recreational and cultural amenities, poor housing, problems with crime and drugs, and income inequality were cited by 27.9 percent of respondents. Public and citizen attitudes were suggested as a formidable obstacles to development by 38.2 percent of respondents.

Pursuing Prosperity

Prosperity, however, has not necessarily followed the recent period of manufacturing investment. The Corporation for Enterprise Development's (CED) *1995 Development Report Card for the States* reports that economic inequities have persisted and deepened in Kentucky. While Kentucky has one of the nation's most diversified economies (fourth in the United States), a circumstance that presents enormous opportunity for expansion and improved economic vitality, the proliferation of low-wage jobs in the state has weakened its economic performance. Quality of life in Kentucky, CED concludes, remains below average because of "too many low-paying jobs, slow wage growth, high poverty, and poor income distribution" (CED, 1995). Indeed, Kentucky is attracting some northern firms because its low wage rates permit them to dramatically cut labor costs (Bernstein, 1995).

Nevertheless, as illustrated, per capita income as a percentage of the national average has risen steadily since the mid-1980s, after a period of decline. While the gap between the national and state average has closed by 2.5 percentage points since 1990, rural per capita incomes are consistently and substantially lower than those for the state as a whole, an average of 28 percent lower at the county level.

FIGURE 2
Per Capita Income in Kentucky as a Percent of the U.S. Average, 1980-93



Source: BEA, REISA

Some rural areas of the state, however, are enjoying significant income growth. University of Kentucky economists Mark C. Berger and Dan A. Black, and Center for Business and Economic Research associate Amitabh Chandra report systematic improvements in per capita income over the past five years in the Barren River, Lake Cumberland, and Lincoln Trail Area Development Districts (ADDs) which form the western center of the state and the southeastern Kentucky River ADD. In spite of recent growth, how-

ever, per capita incomes in these areas continue to lag behind the state's average. In contrast, Berger, Black, and Chandra found that the Buffalo Trace and Gateway areas are getting poorer relative to the rest of the state. They predict continued upward trends in economic activity in the rural ADDs of Barren River and Lincoln Trail, and envision particularly robust growth for the southeastern Cumberland Valley ADD. Again, however, each of these areas must make significant gains in order to reach parity with the state as a whole, which continues to lag well behind national economic benchmarks.

Because the erosion of job opportunities, business activity, and, ultimately, population in many rural areas of Kentucky has been gradual, the sense of urgency may have been diminished and, therefore, weakened potential responses. Nevertheless, changing economic circumstances suggest that crisis response and management may be justified to build the economies of some regions of rural Kentucky. If the overall drift of population toward urban centers continues unchecked, it will further deplete rural population, weaken future labor force viability, and undermine the leadership needed to mount an effective strategy to reverse decline. Continued urbanization will also concentrate and intensify what were more diffuse and, hence, more manageable social and economic problems (Bonnett, 1993). Additionally, globalization imperils fragile rural economies, even as it yields enormous opportunity.

Part of reversing the decline many rural Kentucky communities have experienced entails building upon emerging economic relationships with urban communities, enterprises and institutions, and extending their reach into the global community. It is evident that the poverty or prosperity of any part of the state—rural or urban—influences the state's overall well-being. Consequently, it is difficult, if not impossible, to conceive of a strategy for greater economic and social well-being in Kentucky that does not recognize and systematically address the development of the state's rural communities. In spite of lingering illusions about the unchanging nature of rural life in Kentucky, it is profoundly influenced by structural economic changes that are irreversible and inescapable. Ultimately, change in the larger, global context will either propel rural Kentucky into the 21st Century or ensure its continued marginalization.

The Certainty of Change

WHILE THOSE WHO SHAPED THE COURSE OF THE 20TH CENTURY RESISTED MANY CHANGES that might have enhanced the Commonwealth's economic status, the consequences of doing so today could doom Kentucky to a future of deepening marginality. Indeed, many predict that those who are uncomfortable with change and ill-prepared to negotiate it will suffer the most.

The results of an informal survey conducted in the spring of 1995 by the Kentucky Long-Term Policy Research Center suggest our focus is changing. Respondents, all of whom either are either knowledgeable practitioners or observers of rural development, expressed a high level of comfort with change. They see catalyzing potential in expanded investment in education, long-range planning, coordination at the local and regional level, government reinvention and grassroots leaders and organizations.

However, several respondents also cite lingering discomfort with change among local officials and citizens as obstacles to progress. A range of responses suggest much work remains to prepare formal rural leaders for the future, including overcoming such obstacles as "lack of vision," "politics as usual," "centralized decision-making," and "closed political structures and processes." Moreover, many respondents see a poorly prepared and fatalistic citizenry which continues to hold "the belief that education/training is not necessary to succeed." One respondent from the academic community observed that the resistance to change may be a reflection of rural residents' own recognition of how poorly prepared they are to manage it.

Despite the security and continuity that come with tradition, *some* of our traditions may have to be dramatically altered or even abandoned if rural communities are to become strong and prosperous in the coming century. At the same time, new traditions, born out of broad democratic

participation and collaborative initiatives, must emerge. They must enhance rural capacity to manage the change that will remain a certainty in all our lives throughout the foreseeable future.

Globalization Expands

Perhaps the most far-reaching transformation in terms of its impact on individuals, enterprises, and institutions is the globalization of our economy, an economic realignment that has forever altered the way we work and conduct business. Gradually, it is weaving a web of alliances that transcend the traditional boundaries of nations and states. From space exploration to environmental protection, from military interventions to international sports leagues, global relationships are taking on revolutionary forms and making people, institutions, and nations more interdependent than ever before. In this dynamic international environment our "history-oriented" focus will be particularly ill suited to survival.

No matter where we live, our lives have been touched by globalization, and its power will continue to resonate in our lives for years to come. It is estimated that by the year 2000 virtually every product made in the United States will face competition (MDC, 1991), spiraling the demand for quality products and productive workers higher and higher. More than ever before, the prosperity that has eluded rural Kentucky throughout the 20th Century is inextricably tied to the capabilities of its workers, firms, and institutions. With full implementation of world trade agreements, competitive pressures are likely to intensify and compel even higher standards for performance.

The midwestern factories that once beckoned the poor of Appalachian and western Kentucky have become the monuments of the Rust Belt.

For firms and entrepreneurs—rural or urban—that are poised to compete and prepared to navigate unfamiliar territory, engagement in the international marketplace offers virtually unlimited possibilities. On the other hand, direct global competition could have a devastating impact on rural communities, as the leverage they once enjoyed among mobile firms in search of cheap labor is diminished by international competi-

tion. So-called "footloose" branch plants, for example, have already begun to relocate in developing countries, where the editors of *Forgotten Places: Uneven Development in Rural America* observe, ". . . wages are even lower and workers less organized than in the economic backwaters of the United States." The authors also note, "Migration no longer offers the same opportunity for people . . . to improve their economic lot as it did even a generation ago" (Lyson & Falk, 1993, 4). The midwestern factories that once beckoned the poor of Appalachian and western Kentucky have become the monuments of the Rust Belt. In their place is an economy increasingly reliant on service and manufacturing industries that offers a path to prosperity only to those with high skills and technological prowess that rural workers often do not possess. Hence, rising levels of educational achievement among workers and organizational change are becoming imperatives for the survival of rural enterprises that play vital roles in local and state economies.

To develop a future-oriented focus in our thinking and to engage in informed planning, we must recognize the power, the breadth and the possibilities of the global economy, understand that it will continue to usher dramatic change into our lives, anticipate that it will create winners and losers in the marketplace, and begin now to position Kentucky as a winner.

The Architecture of Change

Technology has also played a powerful role in the economic restructuring we are now experiencing. Particularly in the workplace, it has eliminated or simplified millions of tasks. Gradually, technology is freeing workers to contribute at a much higher, more intellectually demanding level, planning, creating, and refining complex processes, rather than simply executing narrowly defined tasks. Consequently, rural firms and rural workers confront the challenge of realigning their organizational and human capabilities to meet the demands of today's technology-driven economy. They not only must look outward and become engaged in the global economy, they must build new and more advanced capabilities within.

While technology has caused significant worker displacement, it holds the possibility of creating more high-skill jobs and liberating workers and workplaces from the urban and suburban areas where they

have traditionally done business. Today, an estimated 8.4 million U.S. workers telecommute or communicate electronically with their employers. By the year 1998, the market research firm Link Resources estimates that more than 13 million people will be telecommuters (Baig, 1995), the beginnings of what may, over the long term, prove to be an economic and demographic boon for small towns across America—if they are prepared to seize unfolding opportunities.

We will see an explosion in the number of people, businesses and organizations utilizing information technology, which lubricates the engine of the international economy. In February 1995, *Business Week* reported that the number of sites for the World Wide Web, software which organizes information on the Internet into a more accessible format, was at 27,000 and doubling every 53 days (Cortese, Verity, Mitchell and Brandt, 1995). At that rate, more than 1.2 million sites will be "on line" by January 1, 1996. Some small towns have already wired every household and business to enable engagement with the world.

In spite of the sense of separateness from what, on the surface, appear to be uniquely urban phenomena, rural workers, firms, and communities cannot afford to insulate themselves from the changes wrought by globalization and technological advancement. Nor can policymakers.

Electronic access is gradually elevating the quality of education at every level throughout rural communities, enabling direct access to instructors, virtually infinite resources, and courses of study previously unavailable. When fully implemented, the Kentucky Information Superhighway could help make high-quality, interactive education available to students and classrooms in the remotest corners of the state. Universal access and thoughtfully constructed programs and policies could help close the substantial educational gap that inhibits development and expanded prosperity in rural Kentucky.

In spite of the sense of separateness from what, on the surface, appear to be uniquely urban phenomena, rural workers, firms, and communities cannot afford to insulate themselves from the changes wrought by globalization and technological advancement. Nor can policymakers.

While change is difficult and daunting, the global economy offers remarkable opportunity in markets that are multiplying as rapidly as competitors for them. Those communities and enterprises which decline external engagement and the internal change it compels will likely be left behind. Many already have been.

Organizational Realignment

In order to adapt to the larger context of change wrought by globalization and technological advancement, U.S. firms and institutions have been undergoing dramatic organizational change. These strategies for systemic or structural change, often referred to as quality initiatives, have unleashed previously untapped contributions, streamlined processes, cut costs, and, in the process, reshaped our fundamental understanding of how to achieve goals. While the private sector aim of organizational change is higher quality products and higher worker productivity, its transformational potential offers broadly applicable, readily transferable strategies.

The still dominant and broadly influential school of thought advanced by the late W. Edwards Deming, for example, emphasizes the importance of establishing a fluid process that will facilitate continual improvement of quality (Gabor, 1990) *or* constant change. Perhaps the most profound structural change wrought by Deming and his successors, however, is the advancement of participatory democracy *and* teamwork in the workplace, both of which are regarded as critical factors in the pursuit of quality. Deming exhorted followers to drive out fear, build trust, reward and recognize excellence, and, in doing so, develop a climate in which innovation and creativity could thrive (Gabor).

This participatory, democratic vision of managing change and achieving goals dismisses the validity and the effectiveness of rigid, hierarchical structures that yield little if any power. Instead, it recognizes that those closest to a job understand it best and can therefore play a pivotal role in improving and refining it. Deming envisioned power—and responsibility—broadly shared and organizations made stronger as a result. Recent research suggests that the same critically important forces strengthen communities and enable them to prosper (Putnam, 1994). Likewise, the diffusion of power and responsibility for develop-

ment to the local level may indeed be critical to capturing rising standards of productivity and prosperity.

Today, quality principles or the tenets of organizational change have moved well beyond the factory floor. They influence the conduct of public, private and non-profit organizations worldwide. From a guiding statement of purpose or vision, to the imperative of training and education at every level, particularly in the area of leadership skills, the principles have become ubiquitous. They underscore the enormous potential of those people who are closest to problems government is challenged to solve. Democratic participation and teamwork—the work world's equivalent of community—have become central to our understanding of how to move organizations toward the realization of shared goals, whether it be higher quality products or higher incomes for rural people.

Likewise, government can better achieve optimum outcomes through flexible policies and programs that enable rapid response to a dynamic economy. Governments that fail to create flexible, future-oriented policies and programs that reflect a broad understanding of the implications of structural economic change will only inhibit and constrain development. For both public and private entities, the challenge involves moving beyond a paternal, command-and-control paradigm, to one that broadly engages citizens and workers in the task of building a better future. If we are to increase prosperity in rural Kentucky, we must broaden understanding of change and increase local capacity—industrial competitiveness, education, leadership, and civic engagement—to manage it effectively. We must look to the world for opportunity as we ready our communities to capture it.

Development in the New Context

OUR UNDERSTANDING OF DEVELOPMENT, perhaps the most difficult and important work of governments around the globe, is evolving. The changing requirements for a competitive economy are transforming the conditions for success in economic development initiatives. In turn, new expectations of government are emerging (CED, 1993). States, observes R. Scott Fosler, a Senior Fellow at Johns Hopkins University's Institute for Policy Studies and head of the national Committee for Economic Development, are "struggling toward a new paradigm of economic policy" (Fosler, 1993, 3). Gradually, development initiatives—rural or urban—are redefining the parameters of their work and refining internal processes to meet new challenges. Quantitative jobs creation approaches to development are being refined to focus on creating high quality jobs and broad economic benefits.

Today, we understand a great deal more about what will and will not improve the circumstances of peoples' lives. Indeed, a dynamic body of information is perhaps the most effective tool available to governments in pursuit of development. It offers unprecedented opportunity to shape programs and policies that offer the highest possible return on citizen investment. In an era that will likely continue to be characterized by fiscal restraint and unrelenting pressure for more cost-efficient government, the familiar challenge of rural development—doing more with less—may grow more difficult. At the same time, the needs of rural communities may grow more acute, even as government resources decline. Consequently, the adoption of best practice development processes that help cultivate maximum local capacity for development is critical to the future of this predominantly rural Commonwealth.

Today, an enriched understanding of the enduring power of democracy informs the work of development, both rural and urban. From the adaptive change that industry and institutions have undergone, as well as a growing body of research, we have begun to grasp the importance and the power of participative democracy. As power is pushed downward by organizational change and diffused by technology, the strength of organizations and, indeed, whole societies is magnified. As suggested by Rutgers Dean Mark B. Lapping, the approach to development this enriched understanding recommends is "old wine in new bottles" (North Central Regional Center for Rural Development [NCRCRD], 1991), renewed recognition of the enduring importance of community in a new global economy.

The precise economic and social benefits of participatory democracy or civic engagement may, however, be difficult to measure, largely because its value is incremental over the long term and broad investment in its advancement has yet to emerge. Moreover, isolated efforts of nations, states, and communities which have begun to invest in building civic capacity are still short term. Nevertheless, rather extraordinary consensus is emerging on the critical role that this human multiplier effect plays in the development of people, firms, institutions, and communities, as well as entire regions. Broad democratic participation, the community cohesion it engenders and the capacity for constructive change that it enables, may, quite simply, be the best hope for underdeveloped, rural regions everywhere. Consequently, nurturing and cultivating civic engagement in order to elevate local capabilities to solve local problems may offer the optimum strategy for the development of rural people and places.

Broad democratic participation, the community cohesion it engenders, and the capacity for constructive change that it enables, may, quite simply, be the best hope for under-developed, rural regions everywhere.

Beyond Quantitative Development

IF WE LOOK TO THE FUTURE BEING SHAPED BY THE LARGER CONTEXT of global competition and technological advancement, it is evident that quality is rapidly defining the path to prosperity. It is now widely understood that highly skilled workers, high-performance organizations and communities committed to creating a high quality of life are best positioned to take advantage of the opportunities change is yielding. Not surprisingly, the work of development is beginning to accommodate the now diffuse expectation of quality. The traditional focus of development initiatives on quantity—jobs, locations, dollars invested—is gradually shifting to an emphasis on building quality, the capabilities needed to manage change.

In his 1988 book, *The Rise of the Entrepreneurial State*, Peter K. Eisinger detailed the emerging movement of states toward what he termed "demand-side" policies and programs that were responsive to structural economic change. In contrast to "supply-side" policies, which are externally focused on meeting the needs and following the decisions of mobile industries, demand-side polices seek to improve internal capabilities to compete and prosper. The growth of such policies, Eisinger observed, represented a reordering of long-established relations between the public and private sectors" (Fosler, 1988, 12). State governments had become engaged in the market economy at unprecedented levels, working to leverage maximum opportunity to benefit from macro-economic change.

The shift to more entrepreneurial approaches, which has proven to be very gradual, is particularly important, in that such policies emphasize "*local resources as a basis for growth*, rather than . . . competitive engagement with other states for mobile capital" (Fosler, 1988, 11). Because entrepreneurial or qualitative policies recognize the potential market value of existent firms and would-be entrepreneurs, they shift the *primary* focus of development initiatives to the work of building the capabilities of communities, institutions, firms, and workers. Ultimately, this fundamental shift in focus is necessarily followed by a diffusion of decision-

making authority and resources to the local level from which entrepreneurial energy radiates.

Jobs That Don't Add Up

History and its continuing legacy perhaps best illustrate the myopia of what Fosler terms "quantitative development" or jobs recruitment as a principal development strategy. Aggressive state-level development campaigns that emerged in the South during the 1950s promoted labor willing to work for low wages (MDC, 1991; Eisinger), what seems an incomprehensible strategy in an era when creating quality jobs is becoming a mainstay of political rhetoric. Today, the vestiges of the marketing of cheap labor linger throughout the region *and* in Kentucky. We remain a magnet for low-wage industries in an era that promises prosperity only to those with high skills that have not historically figured in our vision of development.

Regardless of how short-sighted they seem today, the policies of the past achieved and continue to achieve their expressed outcome. The selling of the South, for example, leveraged significant rural investment. Between 1959 and 1977, 1.7 million manufacturing jobs, mostly in traditional industries such as apparel, textiles and furniture, located in the non-metropolitan South. Prosperity, however, remained elusive. The "upward spiral of development" described by David Osborne in *Laboratories of Democracy* (Osborne, 1988) did not follow the recruitment of industry to rural areas, largely because recruitment strategies lacked vision beyond the expediency of creating jobs (MDC, 1991). As MDC, Inc., a Chapel Hill, North Carolina, development firm observes, job deficiencies were evident in three critical areas:

- equity—favorable rates of pay and access to benefits;
- security—stable, long-term employment as opposed to seasonal or short-term work; and,
- upward mobility—opportunities for advancement in skill and income (MDC, 1991).

In recent years, the long-term outcomes of these persistent job deficiencies can be seen in declining and stagnant wages, increasing levels of part-time, contingency employment, and deepening income inequality—circumstances that are consistently worse in rural areas.

Importantly, the southern renaissance of industrial locations during the 1960s and 1970s was neither broadly beneficial nor sustainable in the face of global competition. Firms attracted by the region's cheap labor and land quickly found better bargains off shore. In his 1982 examination of southern industrial recruitment initiatives, James C. Cobb observed that it was "grimly ironic" that a region which had so effectively sold itself to mobile firms "found its future threatened by an increase in industrial mobility" (Cobb, 1982, 98). While the mobility of firms continues, the number of relocating U.S. industries has declined significantly. Some, however, expect it to increase, possibly dramatically, as international trade agreements go into effect. The potential dislocation of workers could pose a severe economic threat to many rural areas of Kentucky (Schirmer & Taylor, 1995).

Today, increasingly sophisticated and aggressive citizen-consumers are demanding higher returns on public investments. In the development arena, these expectations are displacing and subordinating the quantitative approach that has dominated for decades. Economists, researchers, industry leaders, policymakers, unions, the news media, and ordinary citizens have questioned the returns citizens realize from the subsidization of business costs as a principal development strategy.

Business interests, research has shown, have exerted significant influence on tax policy that may be eclipsing the broad interests of citizens and adversely affecting individual tax burdens and incomes.

Business interests, research has shown, have exerted significant influence on tax policy (Harrison & Kanter, 1977; Ambrosius and Welch, 1988) that may be eclipsing the broad interests of citizens and adversely affecting individual tax burdens and incomes. Many citizens and policymakers are concerned about the future implications of widely used tax incentives that defer tax liabilities for prescribed periods of time. Some argue that over the long term incentives will ultimately shift tax burdens to individuals, small businesses, and established industries, creating inequities, straining government's ability to provide vital public services and compromising its fiscal integrity.

Established firms have also questioned disproportionate investment in new firms when in-state firms also need assistance in order to modernize and compete globally. Some argue they are paying the way for new firms that are far less likely to be around for the long term. A Rhode Island study, for example, found that relocating or mobile firms, those most likely to take advantage of tax incentives, were *40 times* more likely to move again than plants already located in the state (Cited in Schweke, Rist & Dabson, 1994). Firms seeking to take advantage of cheap wages and cheap land are more likely to be lured away by better "bargains." In effect, they lack roots to the state that entrepreneurialism and the development of highly skilled workforces in existent industries would be far more likely to cultivate. If our primary development focus continues to be on the "supply-side," on recruiting mobile firms, long-term goals could be undermined, as the likelihood of relocation will only increase with the expansion of global competition.

A Rhode Island study found that relocating or mobile firms, those most likely to take advantage of tax incentives, were 40 times more likely to move again than plants already located in the state.

In spite of the controversy about tax incentives, cost-benefit analyses have yet to emerge. We know very little nationally about actual returns to citizens—measurable increases in their well-being—who bear the costs of luring industries to states. In 1988, Eisinger observed that the speed with which states were developing new incentive programs virtually prohibited careful analysis. Recent analyses suggest that circumstances have changed little since Eisinger's timely observation (Isserman, 1994; Schweke et al., 1994). While the practicality of such analyses is complicated by the confidentiality of tax records and the lack of continuity across political administrations, proof of their efficacy may become a pre-condition for further investment.

In Kentucky, almost no information is available on the costs or benefits of incentives beyond a case study of the Toyota location, which concludes that it has resulted in broad benefits to the state (Haywood, 1992). But large-scale automobile industry locations are, at best, rare. To date, systematic *cost-benefit analyses of the outcomes*, what the citizens of Kentucky receive for the substantial long-term investment they are making

in industrial locations, *do not exist*. Only projections of the multiplier effects of reported job creations, the validity of which are the subject of debate, have been prepared. In general, according to University of Kentucky Professor Emeritus Eldon D. Smith, multiplier effects are appropriate only for the determination of short-term macroeconomic effects while "economic development is a long-term, dynamic, socio-political-economic process" (Smith, 1995).

Yet virtually any expenditure or waiver of anticipated revenues will have some corresponding multiplier effect. Thus, analysis should focus on *cost-effectiveness*, how much "bang for the buck" state recruitment policies are getting, rather than on anticipated costs and benefits. While data collection methods have improved over the most recent months, the state essentially has no real sense of the long-term fiscal impact of the incentives that have been and continue to be awarded nor the efficacy of the jobs creation strategy it is employing.

In a 1994 quarterly economic review prepared by the Kentucky Finance and Administration Cabinet's Office of Financial Management and Economic Analysis, the tax expenditure for corporate income tax incentives was estimated at $14 million for the 1995-96 biennium. The estimate included no tax credits awarded after October 1993 and no allowance for future projects. The Cabinet for Economic Development, however, reports that only $4 million of all tax credits awarded have been claimed to date. While even $14 million represents only about 0.3 percent of today's General Fund, the Finance Cabinet report notes that the cost of incentives could balloon. "Given the 10- or 15-year lifetime of these credits, it is possible for the credits to grow rapidly over the next several years" (Kentucky Finance &Administration Cabinet, 1994).

Some states have moved to ensure higher levels of accountability for incentives by enacting "clawbacks" or performance standards aimed at collecting deferred taxes and/or incentive expenditures plus penalties in the event of an industry's failure to deliver promised location benefits. Other measures adopted in an effort to ensure returns on citizen investments are plant-closing laws; right-to-know laws, which require advance estimates of jobs created and periodic reports on actual jobs created; and public participation laws, which ensure a public role in the awards of location incentives (Peters, 1993). However, University of Iowa Professor Alan H. Peters reports that European clawbacks, on which many state provisions have been modeled, are seldom applied for fear of dislocating workers. Peters suggests that more rigorous perform-

ance goals, "the types of jobs to be created, their wages, the time given for job creation and retention performance, etc.," and formal procedures for evaluating performance and utilizing or waiving clawbacks should be adopted (Peters, 1993, 339).

Efforts to bring the explosion of state-level incentives, the most inventive of which are quickly neutralized as other states adopt them, under control are motivated by a series of costly, high-profile recruitment initiatives that have generated widespread concern and calls for unilateral disengagement. Pennsylvania's $71 million in incentives to Volkswagen in 1978 offers perhaps the most glaring example of industrial recruitment with no payoff. Within five years, half the plant's workforce had been laid off; within 10 years, the plant was closed (Mahtesian, 1994). In the absence of systems of accountability or benchmarks for performance, only the future will reveal how many of the costly industrial locations of recent years have brought real long-term benefits to workers, families, and communities.

Writing for the *Kentucky Journal*, Dr. James R. Ramsey, a Western Kentucky University vice president for finance and administration, professor of economics, and advisor to the Governor's Commission on Tax Policy, observes that reliance on tax incentives has advanced in Kentucky because the cost burden associated with their use is believed to be less than that of outright expenditures for economic development. Dr. Ramsey cites several issues which suggest this conclusion may not be sound.

- Both academic research and business surveys have found that taxes are less important in business location decisions than are many other cost factors (Labor force quality and productivity have risen to the top of location criteria in recent years [Lyne and Venable, 1990], and transportation, a strong Kentucky asset, also remains key [Milward and Newman, 1989]);
- Kentucky's comparative advantage over other states due to low labor and energy costs makes it attractive to appropriate industries, even in the absence of tax incentives;
- Tax incentives should only be used to attract industries for which tax burdens are key and industries that will contribute to the realization of a strategic economic de-

velopment plan (The principal goal of the existent strategic plan is to raise per capita income.); and,

- Tax incentives should be used when they are cost-effective, when the gains realized by locations or expansions exceed the expanded cost of providing public services (Ramsey, 1995). (Recent research suggests that the costs of economic development initiatives in general are rarely exceeded by benefits [Bartik, 1991]).

While, as Ramsey notes, the cost of public services is generally marginal, too much success can create chaos. The need to strike a careful balance between tax incentives or credits and the increased cost for public services required by attendant growth is dramatically illustrated in the example of Rio Rancho, New Mexico. This Albuquerque suburb aggressively and successfully recruited a stream of relocating industries with generous tax credit packages, at least one of which was reportedly developed and marketed by the company which benefited from it. Now, Rio Rancho schools are overflowing into temporary shelters, and the funds needed to accommodate rising needs are not available.

As state Senator Joseph Carraro observed in an interview with the *Wall Street Journal*, "The growth has been phenomenal, but we've seen it blow up in our faces" (Tomsho, 1995). About the community's plight, Kent Briggs, a senior fellow at the Center for the New West, a Denver think tank, concludes, "When you give a tax abatement to the company coming in, either somebody else ends up paying higher taxes or the necessary public service isn't provided. And when you do it in a way that depletes your ability to build schools, that's not a good bargain" (Tomsho).

Strategic Recruitment

In spite of broad-based objections, industrial recruitment and the arsenal of incentives which have proliferated are likely to continue playing a role in state government development initiatives for some time. Industry pressure for government assistance with business costs has had a catalytic effect; private sector expectations and public sector willingness to accommodate them have risen in synchrony. Because rapid change is unlikely and what is good for an individual firm is not necessarily good for Kentucky, utilizing industrial recruitment incentives judiciously to

leverage optimum long-term outcomes is critically important, particularly for rural communities.

While many observers urge disengagement from industrial recruitment altogether, securing employment for the large low-skill component of Kentucky's labor force is a difficult challenge. Consequently, industrial recruitment may be an unavoidable and even important first step toward achieving a rising standard of living in some depressed areas.

Utilizing industrial recruitment incentives judiciously to leverage optimum long-term outcomes is critically important, particularly for rural communities.

University of Kentucky Professor David Freshwater observes that by employing more low-skilled workers, we can reduce levels of dependency and increase revenues that enable investment in the tools to elevate living standards. "Where Kentucky has failed in the past is in making the next step after recruiting low-wage employers," observes Freshwater. Professor Smith, however, cautions that investment in industries that create "company towns," which are dominated by a single, low-wage industry, is potentially injurious to the economic health of a community over the long-term.

In the absence of a strategy for raising labor force quality and expanding the pool of quality jobs *in a local economy*, recruitment of low-wage industries may only institutionalize low-wage jobs and the poor quality of life they enable. Recruitment strategies that, for example, leverage higher skills through incentives designed to reward training may offer a means to the desired upward spiral of development that public investment should yield.

In any event, it is widely agreed that recruitment should play a secondary, strategically focused role in a larger plan for development aimed at achieving rising incomes of greater equality. The Corporation for Enterprise Development, for example, recommends that individual incentives be "strategically designed" to enlarge the economic pie and cautions that, in order to be beneficial, incentives must work to *correct* a market imperfection, such as high unemployment, low workforce skills or insufficient capital (Schweke, Rist, & Dabson, 1994). Smith adds that incentives should also seek "to correct any political imperfection which limits or obviates capacity to provide requisite development." States are

urged to use tax incentives selectively to leverage the highest possible long-term benefits and weigh and construct them carefully to ensure maximum possible return on public investment.

A legislative report prepared by the Indiana Economic Development Council, for example, suggests that incentives should be reserved for firms that enable rising levels of quality, firms that are, for example:

- knowledge- or skill-intensive;
- high value-added;
- export- or new market-oriented;
- committed to environmental excellence;
- investors in their workforce; or,
- synergistic with other firms in the community or region (Laughlin, 1992).

In rural Kentucky, firms that are committed to progressive family policies, to child care services and benefits, for example, that enable expanded female labor force participation, offer another potential target for rural incentives.

Researcher Timothy J. Bartik, a lone advocate for industrial incentives, suggests that subsidizing business costs helps move industry and jobs where they are most needed and helps lower consumer costs. Importantly, however, Bartik also concludes that the benefits which can be leveraged through economic development activities in general are "closely balanced" with the costs of these activities. The net benefits of such development efforts, he adds, are greatest in high unemployment areas. By contrast, in areas with average unemployment rates, "the desirability of aggressively pursuing economic development is likely to depend on designing programs with a low cost per job created" (Bartik, 1991, 207).

Bartik's findings, which are based upon an empirical analysis of state development programs and economic outcomes, support a place-oriented strategy that targets development initiatives, including the strategic use of incentives, where need is greatest and where returns on public investment are likely to be much higher. In Kentucky, need is

Public Perspectives on Forces Advancing Rural Development in Kentucky

Respondents to an informal, open-ended survey conducted by the Kentucky Long-Term Policy Research Center, which appears as an appendix to this report, listed forces they viewed as *facilitating or advancing* rural development. The responses indicate significant optimism about the state's investments in education and training. More than half (55.7 percent) of respondents cited some aspect of education as a force they expected to advance the development of rural communities in the state, suggesting broad-based public support for investment in education and training.

Importantly, nearly half (49.5 percent) of respondents cited a new style of governance ("reinvention . . . at all levels") and public sector leadership as positive forces. Responses which fell in this category comprised 21.5 percent of the total (58 out of 270) responses. Eighteen of these responses referred to *local autonomy* and/or *regionalism* as powerful forces for positive change. This response tied with KERA as the second most frequently cited force that will facilitate rural development. It was followed by a range of responses, including long-term planning, public leadership, public-private partnerships, intergovernmental cooperation and ethics reform.

Nearly 40 percent (39.2 percent) of respondents referred to the grassroots strengths of rural people and rural organizations as positive forces, indicating a high level of confidence in the ability of rural communities to solve their own problems. References to citizen values, the rural work ethic and the strength of rural people rounded out this category.

About one-third (32 percent) of respondents referred to advances in industrial and business development. These responses included references to economic and agricultural diversity, expanded development in general, the influence of incentives, and the tourism industry.

Nearly as many respondents (29.9 percent) cited quality of life factors they expected to positively influence rural development over the long term. Importantly, more than one-third of these responses referred to community spirit and cultural pride as indigenous strengths that would help communities build from within. Other responses included references to quality health care and child care, the low cost of living in rural areas, quality of life in general and low crime rates. Finally, 22.7 percent of respondents cited Kentucky's natural resources and environment while 19.6 percent of respondents viewed advances in infrastructure as strengths that would enable rural development.

clearly greatest in rural areas. In the context of larger goals, namely that of achieving greater prosperity as measured by rising incomes of increasing equality, industrial recruitment could play a strategic, albeit secondary, role. The focus of the Kentucky Rural Economic Development Authority on high unemployment counties, for example, offers the opportunity for higher returns on public investment. Aligned with the long-term goal of achieving rising incomes and rising standards of living, targeted recruitment initiatives could help leverage an upward spiral of development in rural counties where poverty and joblessness continue to be widespread. However, industrial recruitment should only serve to advance the larger goal of building the capacity of communities to compete and prosper.

If, as suggested by USDA researchers J. Norman Reid and David W. Sears, development is "fundamental and sustainable increases in the productivity of individuals and institutions (Sears & Reid, 1995, 2)" as opposed to simple growth, the adoption of qualitative approaches to development is critical to the future of rural communities. Larger trends, historical experience, and a growing body of research suggest that development strategies focused solely on industrial recruitment and jobs creation have not yielded broad benefits for rural people and places. Moreover, building the capacity of rural firms, communities, and people from within is fast being recognized as the most viable strategy for rural development. It offers the potential for a higher return on public investment at what may, over the long-term, prove to be a far lower cost than that exacted by industrial recruitment. In predominantly rural Kentucky, a development strategy that offers enhanced rural development outcomes compels the adoption of a new focus, structure, and services that engage and empower rural people and institutions.

New-Old Truths

Gradually, development theory and practice are returning to the restorative powers of broad civic engagement. The long-term experiences of Tupelo and the regions of northern Italy dramatically illustrate the power of this new applications of timeless truths. Moreover, the lessons of organizational change have shown how light and manageable broadly shared burdens can indeed become.

Today, only a dwindling pool of stubborn believers contends that national or state government can or should be expected to solve every problem. Instead, the roles of national and state government are shifting to that of facilitators or agents of change which enable communities to build the capacity to do for themselves. As former state representative Bill Lear noted at a 1994 Berea conference on rural development, "[E]conomic development is a self-help exercise" (Lear, 1994).

This realization, Garkovich suggests, is one which has come full circle. For a time, emphasis on civic engagement and community capacity faded as the work of development became highly professionalized and centralized. This focus, Garkovich observed in a 1991 presentation, was grounded in traditional beliefs in individualism, competition, and economic growth as the means to progress. However, the programs and policies spawned by these beliefs circumscribed "options for action or intervention" (NCRCRD, 1991). What Northwestern University Professor John McKnight calls "disabling help" effectively weakened and even neutralized the internal capacity of communities, diminishing their ability to cope with change and construct alternative routes to prosperity. In order to revitalize rural communities, Garkovich recommends "development policies and programs that encourage collaboration and broader understanding of civic responsibility" (NCRCRD, 1991).

To accommodate this enriched understanding of development, the role of government—state and local-must shift away from a professional, command-and-control model to one that facilitates, supports and nurtures civic engagement in community building. Significantly, the Economic Development Cabinet's strategic planning initiative has begun to advance this key concept, engaging people across the state in the work of shaping tactics to execute a long-range plan for development. Moreover, the plan's expressed emphasis on existent business and industry attempts to focus the state's development energies on cultivating

the internal capacity to compete effectively in a global marketplace. Programs administered by the Cabinet's Community Development Department and advanced by the work of the Cabinet-led tactic teams also focus on building community-level support for local industry, enhancing community recruitment capabilities, and establishing industrial networks.

Many respondents to a Long-Term Policy Research Center survey of rural development practitioners and observers noted that tremendous unrealized human and institutional potential exists throughout rural Kentucky. Hence, the development of leadership, strong community identity, emerging local and regional organizations, and rising educational achievement are viewed as core strengths that will advance future development. One respondent cites "an untapped pool of citizens with diverse leadership and problem-solving skills to bring to the development process" as a force that will work to improve future prospects for rural Kentucky. Broadly, these responses suggest that the challenge of rural development in Kentucky, on which this essentially rural state's future depends, is one of expanding knowledge and understanding of the changes that lie ahead and building the capacity to successfully navigate them.

In an era of diminishing government resources and escalating demands for services, broad engagement in problem solving offers a cost-effective means to closing resource gaps.

While the formal development policies and programs of government have a long way to go before fully accommodating this evolution of understanding about the forces that enable development, the weight of evidence favoring this strategy as a primary focus, particularly in a predominantly rural state such as Kentucky, is considerable. Moreover, in an era of diminishing government resources and escalating demands for services, broad engagement in problem solving offers a cost-effective means to closing resource gaps.

Social Capital, Capacity and Wealth

From recent research about larger cultures, we learn that the "old wine" that is being brought to the new table of development indeed improves with age and yields radiating and enduring benefits that should compel us to act. The story of Tupelo, Mississippi, which we detail, illustrates the broad social and economic benefits that issue from a sustained commitment to participatory democracy and civic engagement. From Harvard University Professor Robert D. Putnam's 20-year-long study of Italian regional governments, we learn that civic engagement or *social capital*, the incremental wealth generated by broad participation in the achievement of shared goals, is the most significant predictor of quality government *and* prosperity.

In regions Putnam characterizes as "uncivic," citizenship was found to be "stunted," few were engaged in social and cultural associations, and political apathy was commonplace. In sharp contrast, those regions with long, bountiful histories of civic engagement had effectively created "cultural templates," accepted norms of behavior that produced remarkable long-term benefits. "Stocks of social capital, such as trust, norms, and networks, tend to be self-reinforcing and cumulative. Successful collaboration in one endeavor builds connections and trust—social assets that facilitate future collaboration in other, unrelated tasks. As with conventional capital, those who have social capital tend to accumulate more—them as has, gets" (Putnam, 1993, 37).

The cumulative effect of protracted cycles of giving and receiving is, Putnam observes in an essay about the study, a generalized reciprocity that "seems to be a precondition for economic development, as well as for effective government" (Putnam, 1993, 37). "These communities did not become civic simply because they were rich. The historical record strongly suggests precisely the opposite: They have become rich because they were civic" (Putnam).

Recent research into the conditions that yielded the phenomenal export growth of Taiwan and South Korea also suggests that the fundamental capacity of a community, state or nation is a vital precursor to development. Professor Dani Rodrik, a Columbia University economist, concludes that the "relatively skilled and educated workforce" present in both Taiwan and Korea was "a necessary condition" that enabled these Pacific Rim nations to compete so successfully in the world economy.

Rodrik also concludes that relative income equality was an important pre-condition that enabled political leaders to focus on economic growth, a circumstance that otherwise well-positioned Latin American nations did not share (Rodrik, 1995,). Income inequality, is now worse in the United States than in any other industrialized nation (Bradsher, 1995), a circumstance that many fear will ultimately result in social and economic instability. Widening inequality places critically important training and education out of the reach of those who most need it (Wolff, 1995). Eventually, the resultant lost productivity is expected to exact societal costs that will affect virtually everyone.

Rodrik concludes that an export-orientation is simply not enough. Instead, internal capacity enables successful movement into the world economy. Building such capacity, a challenge which is facilitated and propelled by rising levels of social capital, is central to the goal of developing rural Kentucky. If we recognize development as rising levels of income, productivity, capability, and equity, Rodrik's research strongly suggests that neither jobs creation nor export-orientation alone will achieve it. Instead, we must hone the capacity, the capabilities of individuals, enterprises, entrepreneurs, organizations, communities, and even entire regions, if we are to realize the full potential of engagement in the world economy and the critical goals of developing rural Kentucky.

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Despite government's relative slowness to become broadly engaged in this work, tremendous energy is being focused on building local capacity. Indeed, some suggest that "a quiet revolution" to rebuild community is well underway. Richmond, Virginia, City Manager Robert C. Bobb suggests that efforts like his city's Neighborhood Team Process, which began engaging citizens in planning and problem solving in 1988, are succeeding because they put ". . . citizens where they belong in a democracy: at the decision-making table" (Johnson, C., 1995). As John W. Gardner, Chairman of the National Civic League, observes:

> *. . . the processes of renewal are occurring with great vitality out and around the communities of this country. From community development corporations to community policing programs, citizens themselves are assuming a greater share of the initiative and responsibility for social problem-solving. The most successful innovations, however, tend to be collaborative efforts, drawing on and leveraging support from the public, private and nonprofit sectors* (Gardner, 1995, 53).

In rural America, economic dislocation has motivated many communities to act in their own self-interest. During the 1980s, the farm crisis, diminishing returns from industrial locations and an erosion of federal support heightened a sense of crisis. Additionally, the effects of job displacement were felt far more sharply by rural workers, who were more likely than urban workers to lose their jobs, to remain jobless for longer periods of time, and to experience a severe loss of earnings (Podgursky, 1989). Today, the globalization of the economy poses new economic threats for rural workers; local firms face stiffer competition from abroad, and entire industries continue to move offshore in pursuit of lower labor costs. While the sense of crisis that usually compels communities to act has diminished in the present robust economy, declining wages and rising competitive pressure provide compelling reasons for more rural communities to begin acting in their own long-term interest.

As researchers Jan and Cornelia Flora suggest, rural prosperity is dependent upon the entrepreneurial skill of communities, on their ability to respond to changing macroeconomic circumstances and make development happen (Flora & Flora, 1991). Organizations ranging from nonprofits, to group-specific initiatives, to small-city, multi-community, and even state and national efforts to strengthen such community-level ca-

pabilities are emerging. Specific strategies for achieving greater capacity at the local level are also being tried and tested, and early results suggest they are transferable and broadly beneficial. Our understanding of the role government can play in the tenuous but critical work of building the capacity of communities is evolving and yielding real opportunities to help rural people shape the destinies of their communities.

Building the Capacity of Rural People and Places

THE WORK OF BUILDING CAPACITY is, quite simply, that of expanding the capabilities of individuals, firms, communities, regions, labor markets, and organizations to manage change. Its importance is widely recognized. The 1995 report of the Kentucky Appalachian Task Force, the most recent rural initiative in the state, for example, strongly emphasizes the importance of building capacity by investing local communities with decision-making authority and actively engaging citizens in the work of shaping the future. Guiding principles that are echoed in the findings and recommendations of this report, include:

- Kentucky state and regional planning should derive from *community-based planning;*
- Community-based programs should promote *collaboration and coordination* among program agencies and should create more effective *regional linkages* among development agencies and groups, private enterprise, and non-profit organizations;
- Program policy design should create mechanisms at all levels of government that *maximize opportunities for citizen involvement* in setting development priorities and establishing criteria for determining and evaluating programs and projects;
- Strategic development should encourage *regional approaches* to program design and to the integration of program delivery on an areawide and regional basis (Kentucky Appalachian Task Force, 1995).

Capacity-building development initiatives, which are alternately termed self-development or community-based, are conceived and executed locally, but often initiated by public or non-profit sector facilitators. Many believe that a collaborative model, uniting communities or

focusing on a region, offers significant advantages. In any event, capacity-building initiatives are designed to bring a wider, often non-traditional group of players into the process of assessing the current situation, planning for improved outcomes and acting to implement agreed-upon strategies. The optimum outcome of a capacity-building focus is, of course, expanded levels of civic engagement and increased rural capabilities to solve problems and achieve goals. Importantly, it is also a means to closing some of the many fiscal gaps that inhibit development throughout rural Kentucky. What follows is a discussion of some of the elements of widely used and recognized capacity-building strategies.

Here we discuss some of the key characteristics of capacity-building development initiatives, including the importance of a sustained, long-term focus and open, inclusive, democratic processes; the collective potential of collaborative initiatives; the importance of a factual foundation for planning and decision-making provided by community assessment; and the imperative of nurturing grassroots leadership. We conclude with a case study of Tupelo, Mississippi, as an illustration of the long-term potential of capacity-building development initiatives. A companion Kentucky Long-Term Policy Research Center study of rural development, *Farms, Factories and Free Trade*, discusses in detail the potential that industrial networks hold for enhancing the competitive capabilities of firms (Schirmer & Taylor, 1995).

A Long-Term Perspective

The results of a 1990 national survey of self-development initiatives suggest grassroots efforts to leverage improved development outcomes are relatively young; 65 percent of respondents reported that their initiative had been launched since January 1985. While authors of the survey concede that these data may indicate a short lifespan for such initiatives, a logical outcome given the relative lack of public support, the data may also signal growing interest (Green, Flora, Flora and Schmidt, 1990). Certainly, current literature on rural development strongly recommends this path. Short-term results for initiatives designed to yield results over the long-term, however, are not adequate measures of the power or potential of community-based development initiatives.

Because the majority of these capacity-building initiatives have yet to achieve long-term status, short-term results vary. By standard economic models, some results may seem modest at best. For various reasons, others have accomplished few measurable gains or collapsed in the absence of support. The considerable value of such initiatives, however, lies in the long-term accumulation of broader civic engagement and involvement in the life of communities. The compelling examples of Tupelo and the well-documented legacy of Northern Italy strongly suggest that these important non-economic contributions have an enduring power that is worthy of pursuit, commitment and broad-based public support. About their benefits, USDA researchers, for example, observe:

> *. . . self-development projects tend to open up the decisionmaking process on economic development to a broader range of people in the community. In comparison, industrial recruitment is normally conducted in a secretive fashion by a small minority of residents. Those engaged in self-development have taken an important step in extending democratic principles to the local economy, by expanding involvement in economic development matters to new sectors of the community. Active involvement in self-development efforts tends to carry over into other collective community efforts* (Flora, Gale, Schmidt, Green, and Flora, 1993, 28).

Rick Smyre, president of Strategic Concepts, Inc., a North Carolina-based firm that is guiding a Bowling Green initiative, "Communities of the Future," views a future orientation as critical to successful capacity-building initiatives. Because increasing the capacity for change is the principal goal, a strong future orientation and the technological infrastructure to support it is vital, Smyre suggests.

Robert Putnam's research concludes that the incremental gains realized from such collective community efforts ultimately create wealth. The experience of Tupelo, Mississippi, also demonstrates that, over the long-term, increased prosperity is indeed the net benefit of rising levels of civic engagement. Similarly, the author of a 1988 report on rural economic development initiatives prepared for the U.S. Department of Commerce's Economic Development Administration (EDA) observed, "[M]any of the rural areas that have succeeded in generating the most new jobs are areas that began their programs 15-20 years ago" (Thomas, 1988, 7). A study of economic development initiatives in small Illinois communities essentially concurs, "Most high-growth counties had been involved in development activities for at least 20 years" (Walzer, 1993, 8).

Further, a 1988 study examined the experiences of 16 high-growth, non-metropolitan farm-belt counties to identify the underlying factors contributing to their development and to inform state policies. Among the eight "secrets of success" discovered was "sustained local economic development activities." Importantly, recruitment *balanced with entrepreneurship* also numbered among these secrets, as did the combination of manufacturing and service industries; progressive firms; pro-active attitudes; finance, sites, and buildings and infrastructure; leadership in the form of partnerships and "sparkplugs"; and support from the outside (John et al., 1988). In these counties, a mix of traditional and non-traditional ingredients, combined with the important leverage of financial support and a sustained focus, enabled development over the long-term.

Clearly, capacity-building initiatives will not transform Kentucky's rural economies overnight. Instead, as the successes detailed in numerous studies attest, the work of development is a long-term process, but tenacity and commitment do pay off. Indeed, the pursuit of incremental gains through broad civic engagement, clearly a public good, may yield immeasurable long-term returns that extend well beyond the economic realm. Putnam suggests that "the latent effects" of modestly subsidized

collaborative initiatives built on linkages between organizations, institutions, firms, workers, or whatever the relevant mix of actors, could prove even more powerful than any direct effects (Putnam, 1993). In short, the process, one which is collaborative, dynamic and fundamentally democratic, is significantly more important than its immediate, short-term products.

Proponents of organizational change initiatives in the private sector often caution against attempts to measure short-term gains, as the benefits of cultural change are incremental and sometimes intangible. It is, for example, virtually impossible to measure the effects of improved labor-management relations on product quality or productivity though we instinctively know that the benefits are substantial. At the same time, organizational change has yielded innumerable examples of relatively short-term gains in profit, productivity and morale won through the rapid expansion of social capital—participatory management and teamwork—in the world of work. Similarly, many regions and communities have discovered relatively quickly that collective will produces results.

Hallmarks of Successful Rural Development Initiatives

- Capitalize on existing resources
- Focus on adding value to existing products
- Aggressively pursue cash transfer strategies
- Focus on helping existing businesses stay and expand
- Incorporate education in a long-term effort
- Seek training and capacity building for local leaders
- Emphasize research, planning and long-term consistency

Midwest Research Institute, 1988

Regional Approaches

Because the dilution of resources has historically frustrated the work of rural development, collaborative initiatives offer access to the expanded base of resources needed to help meet rural challenges. While collaborative ventures can focus on the interests of a special group, such as organic farmers or female entrepreneurs, or on the broad issue of developing communities, research suggests that the more inclusive the focus—and the process—the more successful the venture (Flora, et al., 1993). While many groups with common goals can be expected to realize gains through collaborative ventures, all of which serve the important long-term purpose of building social capital, our focus here is mainly on collaboration in the form of multi-community or regional approaches to development.

While difficult to launch in the absence of a compelling crisis, collaborative approaches that unite communities in the work of development offer real advantages in the pursuit of greater prosperity. In short, ". . . all parties gain more of whatever it is they value in the collaborative relationship than they can gain by acting independently" (NCRCRD, 1991). Such initiatives, it has been suggested, also help create *lateral linkages* that hold the potential for rebuilding—at a higher level—the frayed horizontal, intra-community connections that once made rural economies viable (NCRCRD, 1991).

In *Rethinking Rural Development*, the Corporation for Enterprise Development urges practitioners to "think regional, not rural" (CED, 1993, 5). Because rural and urban problems are not segregated, CED suggests, linking them in regional efforts, such as that employed by Tupelo, is far more logical (CED). Collaborative initiatives, according to Dennis MacDonald, who directs Canada's Community Futures Program (CFP), which supports local development efforts in high-unemployment rural areas, are appropriate in that they reflect the "interdependence of communities" today (NCRCRD, 1991). Moreover, regional, multi-community approaches recognize that the economic health and social well-being of a single community usually rises and falls with that of a larger region, and communities in competition with one another further diminish their strength.

Regional Approaches to Rural Development

from *Rethinking Rural Development*, 1993, pages 8-12
by The Corporation for Enterprise Development

The Corporation for Enterprise Development cites different approaches to collaborative, capacity-building rural development initiatives which reflect the uniqueness of the regions they serve and the vision of citizens engaged in the processes.

The "citistate" approach adopted by Nashville, Tennessee, for example, is an urban-centered initiative that has brought radiating benefits to surrounding counties. Much as Tupelo did in 1948, business leaders in Nashville organized Partnership 2000, a long-term planning process aimed at raising quality of life, in 1989. Partnership 2000 has achieved remarkable success and extended its focus outward to include nine non-metropolitan counties surrounding the greater metropolitan Nashville area. Building on a foundation of assessment, broad citizen input and measurable goals, the project has formulated long-term plans and goals and raised $6 million, which it has invested in 98 business and community development initiatives. Similar regional planning efforts emanating out of urban centers in Kentucky could integrate fringe rural counties into a long-range effort that would be enhanced by the significant resources of urban communities.

The Regional Economic Strategy Project of Western North Carolina set out in 1988 to develop "an explicitly regional economic strategy," one that would address the needs of an area which did not enjoy the same level of economic performance as other parts of this prosperous state. The regional focus is one that " . . . rejects local initiatives that are limited in their ability to produce significant change, and place the region's counties in competition with one another. It assumes that no community or county in western North Carolina can realize its economic potential while the overall region continues to lag economically." Through a series of public forums involving 400 people from 17 counties, ideas on ways to build the optimum regional economy were surfaced, then shaped by a technical committee into four consensus goals, including the formation of a leadership development program and a multi-bank lending strategy.

In Nebraska, a statewide strategy for regional development emerged from the work of the 1991 Rural Development Commission formed by Governor Ben Nelson. The commission was charged with bringing public focus to rural issues; encouraging cooperation both between communities *and* service providers; improving the flow of information to rural communities; integrating rural development goals and recommendations into strategic planning initiatives; and improving programmatic oversight. From the outset, the commission's work focused on collaboration and the importance of building local capacity. The resultant Nebraska Development Network, which began operations in 1992, has achieved a number of important capacity-building goals, including the creation of an academy to nurture rural leadership and enhance local capacity; formation of regional service providers around trade centers; on-line access that provides interaction between communities and access to economic intelligence; establishment of the Nebraska Intelligence System, a source of useable, readily accessible economic data; the formation of working groups to assess appraisal tools and processes and develop new ones for testing; and, the establishment of benchmarks for the state's community development block grant program aligned with new rural goals.

While rural communities often share common plights, economic links between urban, suburban and rural areas more accurately reflect today's interdependencies. Indeed, labor markets, the focus of Canada's CFP, are increasingly rural-suburban-urban contexts. Demographers, for example, find that more people are moving to outlying rural areas, in part because more firms are locating on the outskirts of metropolitan areas, thus extending the radius of commuter travel—and economic relationships—outward into rural communities (Johnson and Beale, 1995). Carving a state into rural and urban territories, CED suggests, only serves to undermine economic links between urban centers and surrounding rural counties, disguise significant variations between substate regions and rural areas, and marginalize rural programs (CED, 1993).

Recognized internationally as model approaches to development, collaborative initiatives are also the offspring of that mother of invention—necessity. Working together to maximize supplies of resources helps communities close some of the many fiscal gaps which have resulted from increased demands on public services and for efficient, low-cost government. In short, they can do more with less. Collaborative multi-community or regional development initiatives, MacDonald suggests, enable communities to:

- enhance an otherwise shallow resource base;
- leverage higher levels of government interest and financial support;
- increase attractiveness to business locations;
- overcome debilitating political, organizational, and institutional baggage;
- preserve local ownership;
- change traditional boundaries; and,
- achieve critical mass (NCRCRD, 1991).

Logically, such processes can also strengthen the capacity of communities to preserve desirable qualities of local culture, which many fear will be diluted by traditional economic development. Rural communities engaged in collaborative development efforts can also become more effective lobbyists for shared goals and objectives and leverage greater political and technical support—and skill. In effect, they can achieve rising capabilities that enable an upward spiral of economic and social activity.

The ability of rural alliances to build, maintain, and expand local ownership, however, is highly dependent upon democratic processes, a

pre-condition for the success of any initiative. Many begin with public or town meetings, aimed at raising awareness, engaging citizens, identifying leaders, and gathering public opinion. Other important ingredients of successful alliances, as suggested by the authors of *Toward an Understanding of Multi-Community Collaboration*, issue from the work of organizational change in public administration. In each case, they closely parallel private sector quality tenets. They include:

- commitment of top elected local officials;
- careful consideration of mission and/or vision and goals for realizing it;
- an action plan linked to committed resources and expected outcomes;
- an assessment of external and internal environments, and the strengths and weaknesses, opportunities and threats each pose;
- an accounting of measurable returns, anticipated and realized, on public investment;
- targeted, realistic goals that build on a community's strengths;
- focus from the beginning on implementation or action;
- clear lines of responsibility or designated authority; and,
- visible results from initial projects (Cigler, 1989; Cigler et al., 1994).

The importance of achieving initial results would seem to run contrary to that of sustaining a long-term focus. Rather, even minor organizational successes can help boost confidence in new approaches to development, and consensus goals usually produce agreed-upon problems and needs that can be readily addressed once collective attention is given to them. Tupelo's remarkable success story, for example, began with a town clean-up effort. An assessment of community assets, liabilities and future prospects, which we later discuss in greater detail, provides a necessary focus for civic energy from the outset, identifying realistic goals and strategies that elevate confidence in the process.

In spite of the potential they offer, few would suggest that building cooperation between communities, institutions, organizations, etc., is an easy matter. Indeed, turf issues have stymied the most noble of causes here and abroad for generations. The difficult, time-consuming process of cultivating public interest, building trust in the process, and, some

suggest, overcoming a general resistance to collaboration, MacDonald observes, can obstruct public and private efforts (NCRCRD, 1991). Moreover, inadequate organizational and leadership capabilities (NCRCRD), and the problem of intervention by government (Freshwater and Ehrensaft, 1995), if the process is initiated by one of its representatives, are all possible impediments. However, research and experience are demonstrating that investment in innovative capacity-building initiatives can facilitate collaboration and engagement and achieve desired economic outcomes.

Leadership Development

Building capacity is "developing knowledgeable local leadership that can respond to, and even create, opportunities for economic development" (Sears et al., 1992). But, as Grisham suggests, leadership is a force, not simply the individuals we customarily identify as "leaders." The ultimate difference between traditional leaders and leadership lies with relationships, observes Grisham. The relative ineffectuality of some traditional leaders is often a product of their reliance on vertical relationships and their inability to form horizontal relationships within their own community, from where the real energy of development must issue. In the arena of rural development, the ability to form, sustain, and work cooperatively with activist groups or teams is key.

Ideally, capacity-building strategies serve multiple purposes, including identifying, nurturing, and sustaining leadership and engagement. Process leadership, which emphasizes horizontal relationships and focuses skills such as mediating conflict, conducting effective meetings, building consensus, and maximizing participation, is as important as more traditional project leadership. Open democratic processes, for example, provide an important catalyst for engagement, validate the contributions of individuals and encourage them to continue giving. Whether in the form of individuals or goal-oriented groups, an expanding base of leadership, one that is continually undergoing renewal, helps maximize limited resources and launch an upward spiral of activity.

Today, evolving literature and practice inform the leadership development activities being conducted by public, private, and non-profit organizations. Many have developed the internal capacity to provide such training while others look outside to consulting experts. Rural development initiatives with a capacity-building focus have consistently dedicated resources to the establishment of some ongoing, usually internal, mechanism for developing new leaders. Several states have now established formal institutes that coordinate, deliver, evaluate and refine leadership development services. Ideally, any such vehicle should focus on process leadership in order to sustain the work of building rural capacity for change.

Rural development initiatives with a capacity-building focus consistently dedicate resources to the establishment of some ongoing mechanism for developing new leaders.

In Kentucky, leadership development initiatives have been underway for some time, but their focus and content differ with each organization. Leadership Kentucky, a non-profit organization funded primarily by corporate and business contributions, trains 50 selected participants each year in an effort to broaden "their knowledge of Kentucky's challenges and opportunities" and inspire future leadership. The program, however, is generally aimed at advancing the capacity of traditional leaders. While some partial scholarships are available, the program's cost, $1,500 per participant, is prohibitive to many. The University of Kentucky's Extension Service provides a range of important capacity-building services to interested communities, including leadership development. In conjunction with the University's Appalachian Center, leadership development workshops are provided, but at a minimum cost of $300. Non-profit organizations, including the Brushy Fork Institute, the Local Governance Project, and Kentuckians for the Commonwealth, on the other hand, have focused significant resources on inclusive leadership development initiatives aimed at broadening civic engagement and enriching the capabilities of citizens and groups. In spite of the efforts underway, no systematic effort to coordinate these initiatives and evaluate their effectiveness and outcomes has been undertaken.

Around the nation, examples of leadership development initiatives are multiplying. The Colorado Rural Revitalization Project, for example, which was established in 1988 with the assistance of a Kellogg Foundation grant to provide leadership and community development assistance, engaged 45 communities, most with populations under 2,000, in the work of building "internal foundations and external relationships" (Dunn, 1992, 1). According to *Visions in Action*, a 1992 report on the progress of this broad-based capacity-building initiative, residents of some small towns responded by forming community teams that were "looking to the future, assessing community circumstances and options, reaching agreement on community goals and action plans, and tackling a host of tangible community improvement projects" (Dunn, 1992, 1). The project helped launch self-development community initiatives that engaged a broad range of players, and, in some communities, became the seed for catalytic short-term gains.

Importantly, a similar initiative is now underway in Kentucky, also funded by the Kellogg Foundation; however, in order to sustain energy and commitment to rural development, it will be necessary to develop an ongoing, long-term focus. State and local support will be important to the success of such initiatives.

Community Assessment

The Corporation for Enterprise Development recommends in *Rethinking Rural Development* that broad-based knowledge and understanding of the interrelationships of economies should form the foundation for planning and executing development strategies (CED, 1993). In short, both the point of departure and the continuing path of development initiatives—state or local, rural or urban—must be informed by solid, useable information that can be transformed into goals and objectives for the future. Its importance, Glen Pulver and David Dodson observe, cannot be overstated:

> *Long-term success rests on a community's ability to clarify its current situation, describe the future it wants, choose feasible strategies to reach its goals, and implement its plans skillfully. Community assessment—the process that localities use to catalogue their resources, deficits, opportunities, and options—is*

fundamental to any successful, self-directed effort at community development (Pulver & Dodson, 1992, 3).

Pulver, a Professor Emeritus from the University of Wisconsin-Madison who specializes in community economic policy, and Dodson, who heads MDC, Inc., in Chapel Hill, North Carolina, suggest communities which have not undergone a strong assessment process are blindly groping for the path to prosperity. "The rural landscape is littered with communities that have made large and unsuccessful investments—in industrial parks, promotional campaigns, airstrips, and tourist facilities—without first mapping where they stand in a competitive environment" (Pulver & Dodson, 1992, 3).

Pulver and Dodson, as well as a host of rural development experts, emphasize the importance of community assessment as a process, an ongoing renewal of information, goals, and strategies in accordance with changing circumstances. Smyre emphasizes the importance of a future orientation in community assessment. "Traditionalists may see past strengths as future strengths. That's a mistake" (Smyre, 1995). A futures orientation necessarily underscores the need for sustainable development that will continue contributing to economic and social well-being of people and places over the long term. Orienting assessment towards the long-term future ultimately strengthens a community's capacity for change.

Additionally, the goal of broad community engagement in the process is critically important. "The aspirations of residents should provide the primary direction for public action" (Pulver & Dodson, 1992, 5). Open, public meetings not only enrich the assessment process, they also engage citizens, build consensus and ownership, and surface leadership. The essential ingredients of community assessment, according to Pulver and Dodson, are:

- a data-based portrait of the community in its current state, a balance sheet of assets and liabilities, or ideally, performance over time;
- an assessment of the community's relative standing on a range of critical indicators gauging success over time and in relation to others;
- a gauge of the community's capacity to exploit advantages and overcome deficits;

- priority goals for improving the community's status; and,
- a plan of action (Pulver & Dodson).

In Tupelo, we see a long-standing reliance on technical expertise from outside to provide a foundation for local decision-making, one that has provided critical support for successive 10-year and annual strategic plans. As Pulver and Dodson observe, while most urban communities possess sufficient resources to purchase technical expertise in the marketplace, rural communities generally do not. Consequently, state government could play an important role in advancing local capacity-building by providing technical assistance in community assessment. However, it is important that such technical assistance not displace nor hinder the growth of social capital.

While most urban communities possess sufficient resources to purchase technical expertise in the marketplace, rural communities generally do not.

Again, the University of Kentucky Extension Service is skilled and experienced in community assessment, which is provided on request; however, staff and resources are limited. Likewise, the Area Development Districts have the capacity to develop expertise in assessment and to begin providing this critical foundation for community-based development. Part of designing a comprehensive strategy for rural development is determining how best to provide the support communities need to conduct assessments and begin the all-important process of building the capacity to compete and prosper.

Self-Development Strategies

While multi-community or regional collaboration offers clear opportunities to maximize resources, self-development initiatives that have emanated out of empowered local communities have also achieved remarkable goals, often in a relatively short time. Numerous case studies detail the ready success of local self-development initiatives that focused on restoring, rehabilitating or converting to public use historic buildings, potential tourist attractions, abandoned businesses or other community assets, to create a magnet or a center of community activity. Others have developed marketing strategies, recruited and even purchased new businesses, and provided seed money for new enterprises. While these are the most immediate results of community development initiatives, they are also emblematic of the power of social capital, a force which begets more collective energy. These projects have enabled communities with limited resources to achieve unexpected results. Nurturing such efforts by providing grants and ongoing technical support could help produce important long-term benefits.

In Novinger, Missouri, for example, a non-profit community organization formed to launch community improvement projects recruited more than 100 volunteers who donated 5,000 hours of time to the reconstruction of an historic 1848 log home at an estimated savings of $41,000 for the community. Designed to help rebuild local pride in this former coal-mining community, the project also served to demonstrate the possibilities collective action holds (National Association of Towns and Townships, 1990). It is worth noting that the successful development of Tupelo and the surrounding region began with a clean-up project that citizens identified as their top priority (Grisham, 1994).

In Illinois, a number of communities have demonstrated that local goals can be realized through local effort. The celebrated story of Prophetsville, for example, is one of a small community's determination to create lasting jobs by buying an industry outright. With important pro-bono legal support, valuable social capital in this case, a local development organization sold $100,000 in stock to local residents and purchased a relocating wood products industry. In Blue Mound, residents simply wanted a grocery store, so they formed a corporation, sold shares and built a grocery to meet a pressing need in the community, one that might be expected to spawn other local business activity. In Ohio, Illinois, the community wanted to sustain population and commitment to local schools. To achieve its goal, a program of tax reimbursement to families purchasing or building homes in the community was adopted to attract commuters. As a result, local population and school enrollment increased (Walzer, 1993). Similarly, regions of Kentucky that are experiencing depopulation *may* want to consider tax incentives for families to encourage investment in and long-range commitment to communities.

Also offering potential for replication in Kentucky, the Virginia Eastern Shore Sustainable Development Corporation united the Nature Conservancy and local residents in an effort to build a long-term strategy aimed at preserving the health and beauty of the county's ecosystem while expanding opportunities for local residents. Joint plans included the cultivation of eco-tourism attractions that combined conservation goals and plans for expanded public use, specialty agricultural producers, and business development. The Northhampton Economic Forum brought long-term focus and local control to this coastal region, utilizing capacity-building strategies such as community assessment and leadership development training to advance its mission. This work offers a possible model for those underdeveloped regions of Kentucky blessed with significant natural amenities. In these regions, the combination of eco-tourism, complementary agricultural or horticultural strategies, and planned local business development may offer a means to gradually reverse long-term cycles of joblessness and poverty.

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Investments that Pay Dividends

While launching a process that asks increasingly alienated citizens to become involved and believe in their own potential is fraught with difficulty, the lack of financial support for such engagement may be the most formidable obstacle to its realization. In a 1993 national study of rural self-development projects, Flora, Gale, Schmidt, Green and Flora found that community-based, self-help initiatives are hampered by the same dilution of resources that has historically inhibited rural development. Funding and access to capital were most frequently identified as obstacles to self-development strategies. Importantly, the authors note, much of the work of these organizations could be advanced through relatively small sums of money (Flora et al., 1993).

A national survey of rural self-development initiatives conducted for the USDA in 1990 (Green et al., 1990) concluded that these local efforts generate positive, tangible benefits to communities. Predictably, however, they are often constrained by a lack of resources, human and financial, and, to a lesser extent, by opposition from traditional leaders—if they are not involved in the effort. Documented successes of community development initiatives over a relatively short span of time, however, strongly suggest the need for broader public investment.

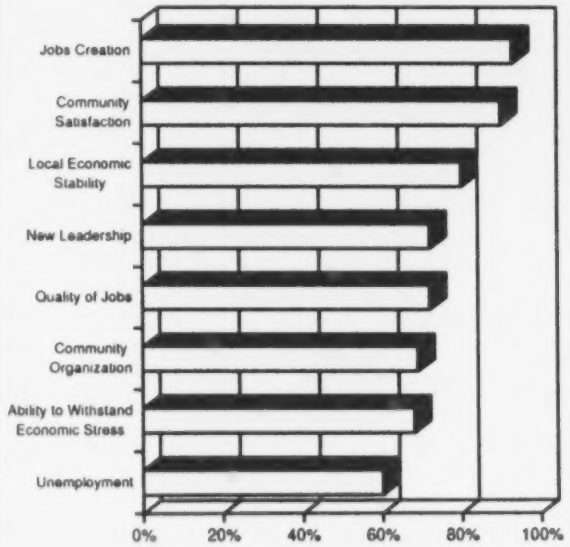
When asked what presented a "great hindrance" to the implementation of self-development efforts, respondents most frequently cited "availability of capital" (32 percent of respondents), followed by the cost of capital (20 percent), lack of capable management (13 percent), and lack of technical assistance (12 percent). Each of these issues can be resolved through the redeployment of more dollars designated for economic development to community-level initiatives.

Other issues of local capacity, including the lack of skilled labor, local government capabilities, professional personnel, and community leadership, were cited by between 7 percent and 10 percent of respondents. In addition, fewer than 5 percent of respondents cited opposition from local government, the private sector, retired persons, and labor groups (Green et al., 1990).

These national survey results also suggest that federal programs and funding play an important role in nurturing and sustaining local development initiatives. Indeed, nearly 30 percent of respondents reported that a regional or local extension agent had been involved in the project,

and the largest projects were funded by federal, state or local government (Green et al., 1990). Faced with an almost certain reduction of federal dollars for rural development initiatives, expanded local and state government support could facilitate the emergence of more of these initiatives.

FIGURE 3
Percent of Respondents Reporting Benefits of Rural U.S. Self-Development Initiatives, 1990



Source: Gary P. Green, Jan L. Flora, Cornelia B. Flora, and Frederick E. Schmidt, Results of a National Study of Rural Self-Development Projects, U.S.D.A., Economic Research Service, November 1993.

In spite of resource constraints and relatively short lifespans (65 percent of responding organizations had been in existence only since 1985), self-development organizations reported successful efforts to create jobs and generate income. As illustrated, the overwhelming majority (93 percent) of respondents reported having had a positive impact on jobs creation, as well as a range of facets of community life. The median number of jobs reported created or saved was 25 per initiative, and more than half of respondents reported that all of the jobs generated by the initiative were filled by local residents. On average, 91 percent of jobs created, 46 percent of which were skilled, went to local residents. Overall, self-development initiatives also generated median gross sales of $150,000, which were likely to radiate benefits in the community (Green et al., 1990).

Significantly, these efforts, the survey found, are not a substitute for industrial recruitment, but rather a complementary strategy. While a plurality of responding self-development programs (41 percent) reported having made no attempt to engage in industrial recruitment, 28 percent reported failed efforts and 31 percent reported success. Among those who succeeded in recruiting industry, the median number of jobs

created was 83 (Green et al., 1990). Consequently, it appears that self-development initiatives are enjoying success whether or not they engage in industrial recruitment and that they can achieve sufficient capacity to garner results in this arena, if they pursue them.

Authors of the survey also found that the more communities engaged in planning and setting goals, the more successful their venture into self-development. Among respondents, 17 percent reported that public meetings helped shape such planning. Likewise, leadership, the development of which is essential to expanding the capacity of rural communities, was an important predictor of success. The authors observe that citizens involved in grassroots development initiatives need training in the fundamentals of democratic organization. Outside funding is also key since only one-eighth of funds utilized by respondents came from local sources. But, the authors note, funds need not be massive. Instead, they conclude that "too much funding too soon can force a project to become inefficient and grow too fast" (Green et al., 1993, 27). Hence, seed money, as well as important sustaining grants, could help launch community-based rural development efforts that have proven to have significant human and economic multiplier effects over time.

Broad-based public sector commitment from state and local government, and the private sector, could play a strong supporting role in the evolution of a network of collaborative development initiatives throughout rural Kentucky. Projects designed to build rural development capacity and nurture collaborative initiatives are emerging across the United States and around the world. From the national focus on distressed communities, which the Community Futures Program has adopted in Canada, to a range of state initiatives such as those in Colorado, Idaho, Kansas, Nebraska, North Carolina, Oregon, Washington, and Wisconsin, the work of building communities from within is being broadly advanced. While some states such as Wisconsin are adopting more active roles, placing resource development specialists in extension offices throughout the state, others have adopted more passive strategies, providing assistance when localities make the first step (Sears, Redman, Gardner, and Adams, 1992). In each of these cases, however, government support, in the form of technical assistance, research, facilitators, training, leadership development, and grants, advances the work of rural development under a capacity-building model. While public support is needed to close critical gaps in physical and social infrastructure and fund entrepreneurial ventures, public support for the work of

community development is key to building the internal resources rural communities need to more effectively leverage investment. Indeed, investment in community development may be the most profitable one government can make.

Elements of Kentucky's strategic economic development plan help advance the capacity of local communities, local development organizations, and firms through expanded participation, recruitment training, industrial networks, and export assistance. Nevertheless, in order to bring real focus to the important work of expanding local capacity, it will be necessary to refine and reorder state government's approach to development. It is one that must consistently recognize the compelling needs of Kentucky's rural communities, as well as the enormous potential of citizens, organizations, and firms in these communities. While garnering measurable results will take time, as it did in Tupelo, the power of communities that are rich in social capital and civic participation is likely to produce sustainable benefits over the long-term. In short, building the capacity of those who serve and live and work in rural communities will provide the foundation Kentuckians need to compete and prosper in the 21st Century.

Public support for the work of community development is key to building the internal resources rural communities need to more effectively leverage investment.

A Case Study

Lessons from Tupelo

LOCATED IN THE RURAL NORTHEASTERN CORNER OF WHAT HAS HISTORICALLY BEEN ONE OF THE NATION'S POOREST STATES, Lee County, Mississippi, held the dubious distinction of being home to the poorest of the poor in the mid-1940s. To make matters worse, its principal city, Tupelo, had been virtually destroyed by a tornado just a few years earlier. Today, Lee County boasts the second highest per capita income in Mississippi, one that nearly parallels the U.S. average, and the energy of an upward spiral of development is almost palpable. Tupelo has become an internationally recognized magnet for industrial investment and an exemplar of rural development that is radiating economic benefits deeply into surrounding rural areas.

The roots of Tupelo's transformation can be traced to the efforts of visionary newspaper publisher George McClean who carefully cultivated broad engagement in the work of lifting this rural Mississippi delta region out of the ruin left by the swift path of a tornado and the slow destructiveness of joblessness and poverty. As University of Mississippi Professor Vaughn Grisham, who heads the McClean Institute of Community Development at the University of Mississippi, observes, McClean knew that all he had was people and the relationships they might form. Tupelo had its share of well-connected leaders with links to Washington, D.C., Jackson, and other points of power, but they lacked leadership. From New England-style town meetings to one-on-one meetings with business community leaders, in which he painstakingly explained that as long as customers were poor, businesses could not be expected to make money, McClean gradually leveraged enough civic engagement to create an intoxicating effect. Working toward shared

goals, the people of Tupelo began to change economic and social circumstances in their own community, and over the long term, which is where development initiatives can and must be focused. Extraordinary gains were made (Grisham, 1994).

Not surprisingly, the Tupelo of today is home to remarkable internal capacity. The work of development appears to be almost wholly independent of state efforts, a product of broad consensus, local vision, and empowered firms, grassroots organizations, and citizens. Community leaders proudly note that Tupelo's high-tech high school was planned by its students. Like its sprawling new high school, which boasts lasers and robotics, Tupelo's development initiatives are attuned to the larger context of global markets, technological advancement, and organizational change.

While industrial recruitment is central to the work of the Community Development Foundation (CDF), which has worked to advance regional goals set by its governing board since its charter in 1948, a blending of the three "waves" of development policies is evident. "Third wave" strategies that focus of *how* development is conducted are key, but CED recommends blending this focus on process with first wave industrial recruitment strategies and second wave assistance to business, industry, and entrepreneurs (CED, 1993). Tupelo's approach to development suggests that third wave processes might have been invented in this most unlikely of places. CDF is now about the business of meeting the goals of its fifth 10-year strategic plan, the first of which was prepared in 1946. Each successive plan has outlined goals for raising regional quality of life. Every year, CDF's performance is measured by its ability to realize annual goals that extend well beyond the recruitment of industry. And significant leverage with the private sector has enabled CDF to broaden its impact.

CDF is now about the business of meeting the goals of its fifth 10-year strategic plan, the first of which was prepared in 1946.

Importantly, the first plan, for which city merchants began raising funds during World War II, emphasized the economic interdependencies between Tupelo and outlying farms and communities. "This mutual interest of town and country has universal recognition," observed the completed 1946 report to Tupelo leaders. The first and all subsequent

plans have stressed a regional or multi-community approach to developing the economy, one that recognizes and emphasizes rural and urban interdependencies. Unlike many rural areas throughout the United States, this corner of Mississippi has successfully retained its farm and rural population.

Strategic long-term vision is at the root of this Mississippi development success story. The architects of the region's renaissance, for example, do not believe that a rural economy can be built on service industries. Nor are tourism and recreation development viewed as a viable development options. Tourism, observes Harry Martin, who has served as CDF director for nearly 40 years, creates a "sub-class" of under-paid workers. "Two people are doing well at that hotel," Martin gestures toward Tupelo's newest inn. "They own it" (Martin, 1995).

Because CDF's vision is that of building an economy on the strength of industrial payrolls, industrial recruitment is central to its strategy. But, unlike many southern communities, Tupelo is looking for givers, not takers, industries that want to enrich community and achieve higher levels of performance, profit, and prosperity. Those who are unwilling to give are essentially excluded from receiving the services of CDF, which are available to industries new and old. While new industries may be extended tax exemptions, they are limited to 10 years. From its land bank, CDF also makes property available at competitive prices but never gives it away.

Tupelo is looking for givers, not takers, industries that want to enrich community and achieve higher levels of performance, profit and prosperity.

A true measure of its success, the people of Tupelo and surrounding areas have become richer because of the extraordinary stock of social capital community leaders have cultivated. "Sharing sessions," launched in the 1950s, bring labor, transportation, and plant managers together to share ideas, information and resources. Today, individuals and corporate citizens, new and old alike, are simply expected to give to their community, to participate in its enrichment. In doing so, they continue a long and distinguished tradition that began with the leadership of McClean, who first engaged local merchants and area citizens in a dialogue about their community's future and raised funds to plan for it.

Over the decades, CDF has executed five 10-year plans. Today, Martin describes the modern CDF facility on Main Street as a "widget factory" that creates payrolls. "There are no back-patters in this building" (Martin, 1995). Instead, this "custodian of the future" is home to a 16-member team of professionals, including a trained city planner, a grants writer, and a three-member marketing team. A high-tech operation that mirrors the goals it sets for the community at large, CDF houses sophisticated computer equipment, CAD/CAM capabilities, a full printing press, and video production capabilities.

Supported by an annual budget of $1.5 million, provided nearly equally by local contributors, grants, and fees for services, CDF's goals for 1995 alone include creating 2,500 new jobs, 1,000 of them in manufacturing; encouraging "world-class skills and technological training" at every educational level; conducting a comprehensive inventory of the tax structure; and promoting community beautification, the development of moderately priced housing, and regional infrastructure.

The foundation's role is described as that of facilitator or change agent, empowering others to contribute and participate more fully in the community. "We are not managers," Martin observes. Instead, CDF provides technical services, marketing and public relations support for local organizations; awards small grants—usually matched—that have grown more than half a dozen non-profit organizations and launched community beautification efforts and a host of other development activities. Local school districts are also strongly supported by CDF.

CDF is also remarkably apolitical. While some political leaders serve on CDF's private sector-dominated board and help shape the development agenda, they are ex-officio members, prohibited from voting by strong conflict of interest provisions in state ethics laws. Unlike many professional development agencies, CDF disdains the usual obligatory visit with public officials. Essentially, they are excluded from the recruitment process altogether. Instead, it is a highly professional, strictly confidential process—not even CDF board members know the identity of prospects. While direct citizen participation in luring industries is precluded in the interest of maintaining professionalism, annual and long- range plans that inform recruitment are shaped in a participatory process.

Importantly, CDF's 10-year plans, as well as other strategic initiatives, are based on extensive research conducted by academics and consultants who carefully examine interrelated economic forces and help the region

anticipate them. At present, CDF is aggressively recruiting professionals—attorneys, accountants, and environmental consultants—to fill an identified need of the growing manufacturing base. The recent emphasis on residential housing is an effort to address a growing labor shortage that analysts believe is tied to inadequate housing. Consequently, the community is aggressively working to attract families and promote home ownership through planned housing developments. Development of a regional mall and a huge furniture mart, where new products are showcased to buyers from around the nation, are the products of studies that determined need and capacity.

CDF planners know where every commercial, industrial, and residential site will be for the next 40 years. In anticipation, the foundation purchases options on planned industrial sites, enabling it to sell to prospective industries or developers at a fair price; conducts all pre-environmental work; and supplies and markets utilities to new industries. And, while it shuns management of any local projects that might divert the organization from the business of making jobs, CDF provides seed money and promotional assistance to facilitate community projects and organizations.

In spite of its long history in the business of making jobs, CDF has exhibited a remarkable ability to change and adapt. When one of its initial ventures collapsed as a consequence of a scientific development, community leaders did not look back. Today, Harry Martin recounts the transition with a rare appreciation of the power of discovery and change, and the good that can indeed come from it.

While we look to Tupelo for transferable ideas, the people of rural Kentucky ultimately must shape their own future, just as the citizens of Lee County, Mississippi, did. Tupelo's experience, however, is instructive. Among other things, it underscores the need to nurture broad civic engagement in the development process, to bring a long-term, future-oriented focus to the work of development, to plan strategically for a future of rising prosperity, to build the capacity to compete and prosper within our communities, to cultivate individual,

While communities of the Commonwealth clearly must put their "made-in-Kentucky" stamp on the work of rural development, the lessons of Tupelo's experience are likely to endure.

organizational and corporate leadership, to enrich the development process with knowledge and expertise, and to manage change effectively. While communities of the Commonwealth clearly must put their "made-in-Kentucky" stamp on the work of rural development, the lessons of Tupelo's experience are likely to endure. They can inform the work of rural development throughout Kentucky and increase the likelihood of increased prosperity.

Forging New Traditions

THE FORCES WHICH INHIBIT DEVELOPMENT IN RURAL KENTUCKY TODAY ARE NOT NEW TO US. Instead, they are continuing, self-perpetuating legacies. That poverty, joblessness, and underemployment are still very much with us throughout rural Kentucky, in spite of many well-intended past efforts, is reason enough to dramatically change our approach to development. But the larger forces of globalization, technological advancement, and organizational realignment compel us to change. They have rendered the simple "jobs-equals-development" formula incomplete at best. More—much more—is needed to achieve rural *and* urban prosperity. Workers, firms, institutions, communities, and government must possess the capacity to seize opportunities.

Across Kentucky, the seeds of change are being broadly cast. In some Kentucky communities, the work of preparing for the future is well underway. In Bowling Green, for example, the Communities of the Future project has established a national capacity building focus, emphasizing technology, citizen networks, leadership development, and consensus democracy. Similarly, Berea-based MACED has launched a Sustainable Communities initiative that will help local communities build from within and plan for an economy that can yield returns over the long term. Statewide projects such as the Education, Arts and Humanities Cabinet's Cultural Economics Initiative are focused on building the capacity within local communities to capture the full economic potential of

In Bowling Green, the Communities of the Future project has established a national capacity building focus, emphasizing technology, citizen networks, leadership development, and consensus democracy.

their rich cultural resources. Each of these initiatives as well as many more are looking long-term, focusing resources at the local level, and emphasizing the critical importance of broad civic engagement or social capital.

Many Kentuckians also have good ideas about how we must prepare and position the Commonwealth for the future. In recent years, several commissions, task forces and private organizations have produced literally hundreds of recommendations for improving the lives of citizens and the operations of government. In 1991, the Commission on Kentucky's Government issued more than 100 separate recommendations to make the executive branch more efficient and effective. In 1993, the Governor's Commission on Quality and Efficiency endorsed more than 270 recommendations for changing Kentucky's government. This year, committees of the Kentucky Appalachian Task Force presented 75 recommendations and primary concerns in their 1995 report, *Communities of Hope*. And the Economic Development Cabinet's strategic plan includes five goals, 22 strategies and 76 tactics.

Add to these reports the efforts of Project 21, Inc., the Education, Arts & Humanities Cabinet, the Department for Social Services, Ag. Project 2000, and the Kentucky Tomorrow Commission, and we have years of hard work from hundreds of groups and individuals. Their efforts have produced many new and creative solutions to vexing problems. Yet the sheer volume of recommendations could leave anyone feeling crushed under an avalanche of "things to do."

Rather than add another lengthy list of recommendations to the mix, we instead turn to the already existent body of recommendations, which echo the major themes of this report. They are:

- Think and plan for engagement with the world;
- Focus resources and effort at the community level; and,
- Develop high-performance government.

We conclude with some ideas about building on the work which has already taken place in order to create a comprehensive plan for development.

Think and Plan for Engagement with the World

The impact that national and global trends will have on Kentucky's future can scarcely be overstated. While we could speculate about the immensity of change before us and its possible impact on Kentucky, recent history dramatically illustrates the ways in which international events affect the Commonwealth. In each of the past two decades we find evidence of how profoundly Kentucky's economy can be affected by events in remote corners of the world.

During the 1970s, the world suffered two oil price shocks as a result of the machinations of petroleum-producing nations. The U.S. economy made widespread substitutions for oil, favoring coal. As a result, the mining sector, which contributed just 3 percent of Kentucky's earnings in 1969, accounted for 9 percent of Kentucky's earnings by 1976 (Black, Daniel and Sanders, 1995). In Pike County alone, the 1973 oil embargo drove mining earnings up 80 percent (Black, Daniel and Sanders).

In the middle of the 1980s, Japanese automakers selected sites and constructed assembly plants in the American heartland. This was partly due to a growing movement in the United States to remedy the huge trade imbalance with Japan that had resulted from a strong dollar. Domestic resistance in Japan to a significant increase in imports from the United States compelled automakers to decrease exports by manufacturing their cars abroad. This brought Toyota Motor Manufacturing, USA to Scott County, and created thousands of jobs across Kentucky.

Recognizing the importance of energy prices, exchange rates and countless other factors which affect the way we live and work in Kentucky, the commissions and task forces expound the necessity of thinking and planning for engagement with the world around us. A decade ago, the Kentucky Tomorrow Commission listed the growth of the global economy first among the five major trends affecting Kentucky's future. A few years later, the report from Project 21, Inc., a private-sector initiative focused on preparing Kentucky for the 21st Century, observes in its introduction, "Kentucky cannot live in isolation. We are part of the world community." The focus on global forces has continued unabated in the 1990s. One of the Economic Development Cabinet's five major goals in its strategic plan is to "create a globally competitive business environment." And the Kentucky Appalachian Task Force prefaces its

recommendations by declaring that Appalachia risks being left behind "in the new world of technology and global markets."

Thinking and planning for engagement in the world demands that we focus *first and foremost* on building our fundamental capacity to compete—on strengthening the capabilities of workers, nurturing organizational change and international engagement among existent businesses, constructing timely and flexible institutional responses to a changing context, and empowering local communities to think and plan for themselves.

Focus Resources and Effort at the Community Level

Because of the profound changes that will come with an expanding world market and a shrinking globe, we are compelled to develop appropriate strategies to prepare for the coming years. Fortunately, Kentuckians are beginning to recognize the benefits of leveraging increased capacity and focusing resources at the local level. In recent years, private sector businesses and non-profit organizations, as well as agencies of state government, have incorporated this strategy into their recommendations and findings. For example, the Kentucky Appalachian Task Force, created by Governor Brereton Jones in 1993, offered, along with its numerous specific recommendations, some guiding principles which "should counsel public policy development and the delivery of government services in Appalachian Kentucky" (1995, 14). While specific to Appalachia, these principles are equally appropriate for other parts of the state. Again, the first four guiding principles are:

- *Kentucky state and regional planning should derive from community-based planning.*
- *Community-based programs should promote collaboration and coordination among program agencies and should create more effective regional linkages among development agencies and groups, private enterprise, and nonprofit organizations.*
- *Program policy design should create mechanisms at all levels of government that maximize opportunities for citizen involvement in setting development priorities and establishing criteria for determining and evaluating programs and projects.*

- *Strategic program development should assign higher priority to human development needs including a broad definition of infrastructure to support such development* (p. 15).

The importance of community-level action is echoed by Project 21, Inc.: "While the state must set the stage in many regards, the economic development story is played out in local communities. Therefore . . . we challenge communities to take action" (1990, 33). The Southern Rural Development Initiative, of which the Kentucky-based Human/Economic Appalachian Development Corporation is a founding member, also emphasizes the importance of using local talents and resources and defines development "as both outcome *and process* (emphasis in original)" (Southern Rural Development Initiative, n.d., 13).

Clearly, these non-governmental groups recognize the importance of community-based development and the principles it entails. The new orientation in development policy is also evident in some of the activities of state agencies. For example, the strategic plan for the Education, Arts & Humanities Cabinet calls for retention of future leaders through the Governor's Scholars Program, an increase in school-based decision-making, the development and support of school districts' "internal capacity for innovation and change" (1992, 26), and assistance to local districts to "establish the capacity to develop curriculum and improve classroom instruction/assessment" (p. 28).

Sprinkled throughout the Economic Development Cabinet's strategic plan are strategies and tactics which contain some of these new ideas. The plan notes that the Kentucky Economic Expansion Program (KEEP) "addresses a more comprehensive approach to development in that it also provides leadership development and understanding of the fundamentals of community organization" (1994, 21). Elsewhere, the strategic plan calls for the Cabinet to "encourage the establishment of manufacturing networks" (p. 28), reward regional cooperation, and "develop leadership . . . capacity and tools, particularly at the community level" (p. 45).

These recommendations rest on a fundamental truth of organizational change: Those closest to the job are best prepared to do it. In order to strengthen the fundamental capacity of people and places to shape a better future, resources and effort— from technical assistance, to leadership development, to much-needed financial resources—must be focused at the community level.

Develop High-Performance Government

The task of creating a high-performance government, one which anticipates the impact of important national and international trends and empowers communities to take responsibility for their future, is not an easy one. Yet it is absolutely essential. R. Scott Fosler, who heads the national Committee for Economic Development, observes that the larger global economic context has forced painful changes in the private sector and caused leading states to shape development goals focused on "achieving high levels of productivity and competitiveness that increase income and provide a high standard of living and quality of life for all residents" (Fosler, 1992, 5). The processes of structural realignment and organizational change compel states to develop new capacities, new "relationships, values and methods," and new approaches to both formulating and implementing policy (Fosler). A growing body of literature suggests some of the features needed to achieve optimum government capacity to advance the work of development.

A Culture of Performance. Government must become an agent which produces returns on citizen investment. In order to do so, it must bring institutional focus to bear on the central and critically important work of development and nurture "a culture of performance" (Fosler, 1992). Many of the same tenets of organizational change which enabled business and industry to adapt to a dramatically changed marketplace can bring alignment and focus to the complex, multi-faceted work of development and improve government performance. Flexible, change-oriented organizations defined by clearly delineated goals; empowered, highly-trained employees; flat management structures; and cross-functional teams offer a proven path to higher levels of performance.

Customer-First Orientation. Fundamental to government's ability to enhance performance, to achieve the goals of development, is a customer-first orientation. The private sector shift from a focus on quantity or production, to a customer or quality orientation has been central to its adaptation to the global economy. Just as the marketplace demands high-quality, affordable products, citizens are expressing impatience with inefficient, costly, bureaucratic programs that do not achieve the purpose for which they were designed. In order for government to be-

come more responsive to citizen/customer needs, the Corporation for Enterprise Development (CED) recommends:

- *customer-specific service*—tailor service to citizen/customer needs, an effort that can often be achieved by "wholesaling services through local or regional entities," those closest to needs and problems;
- *market feedback*—seek citizen/customer evaluations of the quality of service;
- *competitive selection processes*—select private or non-profit providers or services based on performance and cost of delivery;
- *accountability*—establish benchmarks, measures of outcomes, to determine how effectively programs solve problems; and,
- *performance-based management*—tie public funding to performance (CED, 1993).

Institutional Intelligence. In an era in which information and ideas are fast becoming the market's most valued products, government's ability to leverage optimum outcomes for the citizens it serves depends upon the flow of what Fosler terms "institutional intelligence" (Fosler, 1992). Through "a learning system that encourages a constant flow of useful and useable information" (Fosler, 10) government can enhance its own performance and that of the vast network of individuals, organizations and enterprises with which it interacts. From electronic access to economic intelligence, best practice models, technical assistance, and routine communication with peers, vital social capital and local capacity can be dramatically enhanced. Just as community assessment helps identify local needs and opportunities, a comprehensive analysis of the state's economy and key industries and firms in specific regions could help focus our development strategies, target programmatic action, ensure the best utilization of public funds, and more effectively address problems and needs.

Leveraging Capacity. Impact, CED notes, is achieved when sufficient resources are mobilized or leveraged to fit the scale of the problem, a perennial challenge for rural communities. CED recommends that public, private, and non-profit entities, a wider system of actors accustomed to working toward the same goals but within different spheres, be rou-

tinely engaged in the pursuit of consensus goals for rural communities (CED, 1993). By constructing *systems*, which focus on collaborative responses rather than direct service delivery (CED), governments are more likely to achieve success. Such systems transcend the traditional internal boundaries of programs, departments, and agencies and expand capabilities through collaboration. They maximize impact and create more efficient delivery systems. Cultivating leadership or social capital and emphasizing multi-community or regional approaches to problem-solving also serve to leverage expanded capacity to solve problems and meet needs.

The non-profit or third sector offers significant opportunity for government to broaden the base of resources dedicated to meeting shared goals. Seed and supporting grants, contractual agreements, and cooperative initiatives with third sector entities can, for example, help leverage an expanded capacity for leadership, community, and enterprise development and support. Every opportunity to successfully combine the resources of state government with those of private and non-profit organizations in the interest of realizing long-term, shared goals should be seized.

Creating a new government agency or office to perform a role already being met by private or non-profit groups may be an inefficient and wasteful use of public resources. The time required to develop institutional capabilities that are broadly beneficial may result in significant lost opportunity. If collaborative initiatives offer a cost efficient and effective alternative to meeting public need, they offer potential savings and a faster return on public investment.

In order to cultivate more collaborative opportunities, the use of state funds and the conduct of agencies will have to become more flexible and more performance oriented. Rigid parameters for spending, such as those which presently restrict coal severance development funds, must be replaced with more flexible policies that recognize the expanding role of entrepreneurialism in today's economy. Organizations that develop, support, and nurture small businesses and micro-enterprises, for example, may yield far greater benefits to communities than investment in industrial parks.

High-Performance Government in Kentucky. Kentuckians recognize the necessity of establishing a culture of performance, a customer-first orientation, institutional intelligence, and the ability to leverage capacity

in our government. The Commission on Kentucky's Government aimed to increase the efficacy and efficiency of the executive branch, while the Governor's Commission on Quality and Efficiency adopted a broader focus, looking at all aspects of state government. The conclusions of the latter were particularly adamant, "[W]e must change the way we manage our government" (1991, p. 1). To do so, the commission identified four "major fronts" for state government:

- *Empower employees;*
- *Think and plan for results;*
- *Connect government to customers; and,*
- *Invest in our future* (p. 18).

The notion of changing the way we manage our government is hardly a new one. The Kentucky Tomorrow Commission concluded that the structure of state government was so antiquated that only a new constitution could bring needed reforms. The other major change advocated by the Commission was the development of a comprehensive, long-range state plan. "Kentucky is on a journey to the 21st Century with no clear long-term vision of where it is headed" (Kentucky Tomorrow Commission, 1986, p. 25). The Commission envisioned a plan which would "establish policies which guide decisions at all levels of government" (p. 26).

Part of the process of developing a comprehensive plan that will help advance high-performance government is establishing a long-term vision for the Commonwealth of Kentucky, goals that will move us toward the realization of that vision, and benchmarks by which to measure our progress. Today, this visioning process is well underway in Kentucky. In the fall of 1994, a series of public meeting around the state gave hundreds of citizens the opportunity to offer ideas and input which resulted in a draft vision statement for Kentucky. Further citizen input into a draft vision, goals, and benchmarks was gathered at an October 1995 conference held by the Kentucky Long-Term Policy Research Center. A report on the effort, which is supported by the executive and legislative branches, will be issued this year.

The Challenges Before Us

Globalization, technological advances, and organizational change are upon us. These trends will require new ways of doing things in the next

century. They challenge us to realize that the walls which insulated much of rural Kentucky from the outside world are crumbling; they challenge us to change some traditions which have become outdated; they challenge businesses to work with one another as never before; they challenge communities to seek their own solutions to problems, and at the same time to combine their resources in regional efforts; they challenge educational institutions to more closely align their activities with the needs and the abilities of the communities they serve; and they challenge government to empower its institutions, its employees, as well as the citizens it serves.

The task may not be as difficult as it first appears. We see in the many insightful and sincere recommendations from the Kentucky Appalachian Task Force, the Governor's Commission on Quality and Efficiency, Project 21, Inc., Ag. Project 2000, the Department for Social Services, the Education, Arts & Humanities Cabinet, the Human/Economic Appalachian Development Corporation and the Economic Development Cabinet, to name a few, that Kentuckians recognize the need for fundamental change. Moreover, they are willing to make it happen. They are up to the challenge.

Many Kentuckians are singing from the same song book. We suggest that it is now time to get everyone on the same sheet of music with a statewide, comprehensive plan for development. Much of the foundation for such an effort is already in place. Kentucky will soon have a vision statement, goals, and benchmarks to guide planning efforts. And it has a number of groups and individuals who are thinking about the world beyond our immediate borders, focusing resources and efforts at the community level, and calling for fundamental change in our government.

What Kentucky does not have is a plan which explicitly outlines for each state agency, not just the Economic Development Cabinet, its role in the development process, the goals it is expected to realize in the interest of citizens of this state, and strategies for achieving them. Such a plan would necessarily place heavy emphasis on *process*, on how we conduct the work of development, as well as the products or outcomes we hope to achieve. In every facet, the plan would emphasize the importance of looking to the world for opportunity, focusing energies and efforts at the local level—where development happens—and cultivating performance-oriented government that gets results.

The critical groundwork—vision, goals and benchmarks—for a comprehensive, long-term plan for Kentucky's future has been laid. We believe it could ultimately state and local governments, as well as private and non-profit groups, together in purpose, bring much-needed focus to their work, and enhance outcomes. With a long-term plan in place, we can begin to meet the challenge of building a more prosperous future for the people of Kentucky, no matter where they live.

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RURAL DEVELOPMENT QUESTIONNAIRE
MARCH 1995

The charge of the Kentucky Long-Term Policy Research Center is to learn more about ways to effect positive change over the long-term, in the next 10 to 20 years, and sustain it in the decades that follow. We are presently exploring the issue of rural development in light of the expressed vision citizens hold for the future of the state. In a series of public meetings held during the fall of 1994, Kentuckians described a preferred future that reflects a holistic understanding of development. It recognizes development as having economic, physical and human or social dimensions. The tenets of this citizen vision are lifelong educational opportunities; a prosperous and sustainable economy; a clean, healthy environment; safe and healthy communities made strong by engaged and active citizens; and open, accountable and effective government.

With this citizen vision in mind, briefly list what you foresee as the ***principal barriers or impediments*** to rural development in Kentucky over the long-term.

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What forces do you foresee as ***facilitating or advancing*** this vision of the future?

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Name (optional) _____

Please mail this questionnaire to the Center in the enclosed, self-addressed, postage-paid envelope by March 24, 1995. Should you wish to make additional comments, please feel free to do so on the back of this questionnaire or on a separate sheet of paper.

THE KENTUCKY LONG-TERM POLICY RESEARCH CENTER
1024 Capital Center Dr., Suite 310
Frankfort, KY 40602-8204
Phone: 502-573-2851 or 800-853-2851
Fax: 502-573-1412 or 800-383-1412

PUBLICATIONS AVAILABLE FROM
THE KENTUCKY LONG-TERM POLICY RESEARCH CENTER

The Future of Burley Tobacco: Potential Outcomes, Points of Leverage and Policy Recommendations (1994). A quantitative analysis of factors that are likely to influence the market for burley tobacco and, in turn, the livelihoods of Kentucky tobacco farmers over the next decade.

The Context of Change: Trends, Innovations and Forces Affecting Kentucky's Future (1994). Now in its second printing, the Kentucky Long-Term Policy Research Center's inaugural biennial report on issues that are likely to influence the future of the Commonwealth.

Scanning Kentucky **1994: The Year in Review** (1995). A report on emerging issues identified in scans submitted by citizens from across the Commonwealth.

Planning Strategically for Kentucky's Future: Conference Proceedings (1995). An informative summary of the 1994 conference on planning for the future. The report includes presentations on trends influencing the future of the Commonwealth and expert panel presentations and discussions on demographics, family, education, economic development, etc.

Farms, Factories and Free Trade: Rural Kentucky in the Global Economy (1995). An in-depth look at prospects for rural industries in the global marketplace and strategies for success.

Reclaiming Community, Reckoning with Change: Rural Development in the Global Context (1995). A report on the transformational potential of broad civic engagement and initiatives focused on increasing the capacity of communities to engage in self-development.

Visioning Kentucky's Future (1996). Results of a ground-breaking effort to capture the ideas and opinions of citizens in a vision for the future of the Commonwealth, goals for realizing it, and benchmarks for measuring our progress.

$5.8 Billion and Change: An Assessment of the Long-Term Budgetary Impact of Trends Affecting the Commonwealth (1996). An analysis of alternative future budgetary scenarios, driven by key trends influencing the future of the state.

Maximizing Returns on Public Investment in Workforce Development (1996). An exploration of strategies for meeting the unique needs of Kentucky workers and workplaces in a cost-effective manner.

Scanning Kentucky **1995: The Year in Review** (1996). A report on the issues 1995 scans suggest will have an impact on the Commonwealth in coming years.

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1024 Capital Center Drive, Suite 310
Frankfort, Kentucky 40601

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